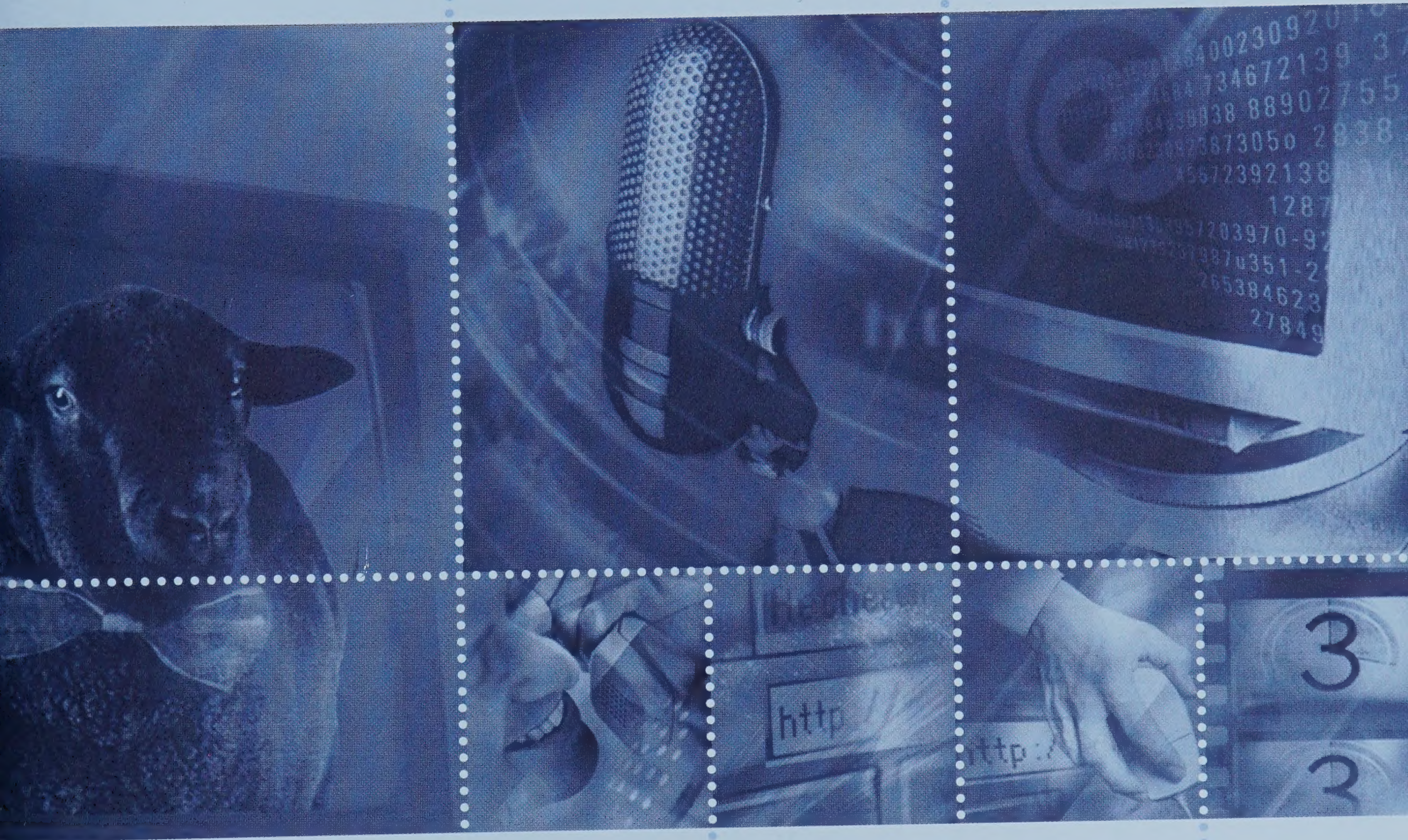
TQS

RYTHME FM

CJMF-FM 93

Cogeco Cable



2003 Annual Report

COGECO

Contents

Glossary

Digital services: digital video services.

HSI: high-speed Internet services.

HSI Lite: high-speed Internet product with download speed of up to 150 Kbps.

HSI Pro: high-speed Internet product with download speed of up to 5 Mbps.

HSI Standard: high-speed Internet product with download speed of up to 3 Mbps.

RGU (revenue generating units): includes basic service, HSI service and digital service customers

VOD: video-on-demand services

Profile

COGECO is a diversified communications company with shares listed on the Toronto Stock Exchange. The Company strives to meet the communication needs of consumers and advertisers through cable distribution and broadcasting.

Through its public subsidiary, Cogeco Cable Inc., COGECO provides 1,188,369 revenue generating units to the 1,397,486 households passed by its cable network in the territories it serves. It is the second largest cable system operator in both Ontario and Québec and the fourth largest in Canada. Cogeco Cable is evolving into one of Canada's major telecommunications companies, by building on its cable distribution base with the offering of analog, digital and high-speed Internet services.

Through its Cogeco Radio-Télévision subsidiary, COGECO is the controlling shareholder of the TQS network serving Québec's major markets in the French language through the operation of nine television stations. Cogeco Radio-Télévision also operates one wholly-owned radio station in Montréal and two in Québec City and has been awarded licences to operate FM radio stations in Sherbrooke and Trois-Rivières.

COGECO intends to remain at the forefront of the communications sector through sound investments in facilities, the offering of leading edge communications services and the pursuit of growing profitability.

(in thousands of dollars, except rates of return and ratios and per share data)

Financial Highlights

	2003	2002	Change
Operations			
Revenue	**$ 603,774**	$ 531,998	13 %
Operating Income [1]	**203,097**	187,305	8
Net income from recurring operations	**9,899**	11,613	(15)
Net income	**9,899**	40,417	(76)
Cash Flow [1]	**137,447**	125,461	10
Free Cash Flow [1]	**13,210**	(30,610)	—
Financial Condition			
Total assets	**$ 2,001,854**	$ 1,988,077	1 %
Indebtedness [1]	**826,470**	849,672	(3)
Shareholders' equity	**350,016**	343,033	2
Rates of Return and Ratios			
Operating Income margin [1]	**33.6 %**	35.2 %	
Return on average shareholders' equity	**2.9**	12.5	
Indebtedness on Operating Income	**4.1**	4.5	
Interest coverage	**3.2**	3.1	
Per Share (basic)			
Net income from recurring operations	**$ 0.61**	$ 0.72	(15)%
Net income	**0.61**	2.49	(76)
Cash Flow [1]	**8.46**	7.73	9
Shareholders' equity	**21.45**	21.10	2
Weighted average number of outstanding shares (in thousands)	**16,255**	16,240	—

(1) The indicated terms are not defined under Canadian Generally Accepted Accounting Principles (GAAP) and may not be comparable to other measures presented by other companies. Refer to page 20 of this Annual Report for a detailed description of non-GAAP measures.

Message to Shareholders

Fiscal year 2002-2003 was a year of profitable accomplishments at COGECO Inc. The team at cable subsidiary Cogeco Cable achieved many of its key strategic objectives. Cable Operating Income was increased by 9% to reach $183 million, earnings per share were increased and positive Free Cash Flow of $3 million was achieved for the first time in many years. Basic customer losses were greatly reduced and high-speed Internet and digital service subscriptions grew substantially. The team at broadcasting subsidiary Cogeco Radio-Télévision Inc. (CRTI) completed its first full year of integrating TQS profitably in a challenging generalist television environment, obtained new FM licences in two cities and extended the RYTHME FM network to Québec City.

COGECO Inc. net income from recurring operations was $9.9 million or $0.61 per share, compared to $11.6 million or $0.72 per share last year as a transitory result of the TQS acquisition. Revenue increased by 13% to reach $604 million. Operating Income increased by 8% to reach $203 million, a very good improvement over last year.

On the broadcasting side of the business, Cogeco Radio-Télévision did well, registering a 7% increase to $18 million in Operating Income. Increased revenue are a reflection of the relative strength of TQS in the Québec generalist television landscape as well as prior audience gains at Montréal station 105.7 RYTHME FM for radio.

Today, the TQS network includes television stations in Montréal, Québec City, Sherbrooke, Trois-Rivières, Saguenay and a repeater station in Rimouski. 78% of the Québec francophone population is covered through TQS owned and operated stations, the remaining 22% being covered through independent affiliates.

According to BBM, the absolute market share of TQS in Québec for the broadcast year has declined slightly to 15.5% in an environment where specialty services increased their share of viewing from 25.1% to 29.9%. However in relative terms, TQS' share of generalist viewing has risen and so has its share of growing advertising expenditures.

TQS continues to hold a leading position in local news in the cities it serves. Additionally, TQS has strengthened its lineup of well-known and credible professionals, and produces the most news across generalist networks. TQS has also invested in state-of-the-art virtual set equipment that allows the creation of countless elaborate sets for news and other productions as well. For 2003-2004, a new morning show *Caféine* was launched on September 1, 2003. TQS is also airing a reality television show called *Loft Story* that started on October 5, 2003. This independent production is licensed from a concept that enjoyed much success with audiences in France in 2002 where it broke all audience records.

On August 29, 2003, Cogeco Radio-Télévision disposed of its minority interest in Stornoway Communications Limited Partnership for proceeds of $0.5 million plus a contingent future consideration. The Company had fully written off its investment in Stornoway at the end of the previous fiscal year.

Radio station 105.7 RYTHME FM continues to perform well and provides the base for the extension of its successful adult-oriented popular music format to a new station in Québec City, 91.9 RYTHME FM, that began operations on August 25, 2003. On July 2, 2003, subsequent to competitive bids, the CRTC awarded CRTI two new FM licences to extend the RYTHME FM network to Trois-Rivières and Sherbrooke which is planned for the Fall of 2004.

Radio station CJMF-FM 93 in Québec City which operates a mostly-talk format has come across difficult times following the replacement of three on-air personalities. The negative impact of this turnover on the station's Operating Income has been offset in part by lower programming costs for on-air talent and by operating cost reductions. Management is making every effort to regain the loss of audience and market share for this station.

On the cable side of the business, Cogeco Cable improved its performance considerably. Revenue has grown by 7% to reach $479 million. We were able to increase our Operating Income margin by 0.7% to reach 38.3% as a result

MAURICE MYRAND
Chairman of the Board

LOUIS AUDET
President and
Chief Executive Officer

of increased revenue, while both programming and operating expenditures were kept in check, increasing by only 6% in the aggregate to $296 million, thanks to strong controls and a continued thorough review of all classes of expenses.

High-speed Internet connections have continued to blossom, growing 30% during the year, despite the $5 rate increase introduced in the second half of fiscal 2002. Thus, we added 46,987 new customers, to reach 205,179. In most of our service areas, the COGECO high-speed Internet service is operated at downstream speeds that beat the digital subscriber line (DSL) competition by a factor of up to 2:1, an advantage we intend to continue to market agressively. We also started offering our HSI Lite and Pro services at $29.95/month and $69.95/month respectively, in Ontario, in early Fall 2002, and in Québec, in May 2003, thus satisfying various consumer segments. We continue to offer our HSI Lite product as a retention tool only and are monitoring this sales approach very closely. New product enhancements will be announced in the Winter of 2004 as we pursue adding value to this customer favourite. As at August 31, 2003, close to 32% in Ontario and 20% in Québec of our basic customers in areas served, used one of our high-speed Internet services.

Our high-speed Internet service continues to receive favourable reviews from customers as evidenced by the independent comparative ranking of world providers posted on the *www.broadbandreports.com* site where Cogeco Cable's high-speed Internet service has been steadily given high overall marks among all Canadian providers! According to the same source, we also rank consistently among the 20 fastest providers in the world week after week! The window on the world that is high-speed Internet is still, in our opinion, very favourably priced for consumers and Forrester Research sees this service continuing to grow well into 2008.

With regards to our digital service, during the first half of the fiscal year, we virtually completed our extension of Cogeco Cable's digital footprint in Québec to reach 95%, (Ontario was already close to 100%), thus greatly enhancing the appeal of our service to customers in these regions. In fact, with a total of 183,087 digital terminals now in service, 26% more than last year, penetration of digital terminals stands at 27% in Québec as compared to 21% in Ontario, where the black market has had somewhat of a dampening effect on digital penetration.

Building on the strength of our digital platform, we deployed our Cogeco Cable VOD service in the October 2002 to March 2003 period, when the service became available, to 85% of our homes passed, one of the largest deployments, on a percentage basis, in North America! Customers may now order a movie or program of their choice from our inventory of about 200 titles, conveniently through the remote control of their existing digital terminals, at the exact moment of their choosing, with the ability to pause, rewind and fast forward, with a 24-hour viewing window, at competitive prices! Customers love this service. We plan to progressively add more titles to the current inventory as we sign additional VOD license agreements with program suppliers, a lengthy process which has now been concluded with, among the largest, Alliance Atlantis and MGM.

The video-on-demand platform is a key competitive advantage of cable over satellite, which we intend to build on, as consumers begin an inexorable long-term migration from on-schedule viewing to on-demand viewing. During fiscal 2004, we will be making our Personal Video Recorder (PVR) solution available to customers for the first time, using DCT-6208 units supplied by Motorola. These units also include High Definition Television (HDTV) tuning capability, a new service we also plan to introduce during fiscal 2004. This development further empowers customers in their search for the ultimate entertainment experience which we are determined to provide.

Dialogue with our customers has improved tremendously through heightened research, better communications and tangible service improvements. In particular, our decision to centralize the marketing function under one corporate Vice-President, with one corporate advertising agency, Ogilvy & Mather, has allowed us to better understand our customers and communicate more effectively using strategies better aligned with the realities

of the marketplace. This effort has been supported by much improved service delivery capabilities at all levels of Cogeco Cable, in particular, in dealing more effectively with customer requests at our call centers and delivering the service in a fast, reliable way in the field.

In an effort to better communicate with customers, simplify their interactions with us and create a friendly transactional environment, we have reconstructed our *www.cogeco.com* site effective on August 25, 2003 which is much improved compared to its earlier version.

From a retention standpoint, our strategies and efforts have made a difference this year, as progressively smaller numbers of customers have chosen to leave us for the competition, either legal or illegal. In 2001-2002, we had lost 42,398 customers or 4.8% of our base. This fiscal 2002-2003, customer losses have been reduced substantially to 15,711, or 1.9% of this base. Of course, we will not be satisfied until basic customer growth resumes, but reducing losses by 63% this year is a very encouraging change, considering that the black market continues to exist and that competing satellite services finally realigned their prices closer to their costs only late in our fiscal year, during the month of April 2003.

We will not be satisfied until basic customer growth resumes, but reducing losses by 63% this year is a very encouraging change.

This has afforded us the opportunity to increase our video service on average by about 5% or $1.75 for all basic customers in Ontario and $2.20 for digital customers in Québec. We continue to believe that competitive video services in Canada are still very reasonably priced and that substantial value remains untapped. Unlocking that value will, however, require a continuing resolve by licensed broadcasting distributors to focus on cost recovery and profitability, and on further progress in developing a national strategy to deal with the black and blue markets.

The black market is the larger issue in Canada with some consumers illegally buying equipment to receive and decrypt unauthorised US satellite services free of charge. Through programs such as the Coalition Against Satellite Signal Theft (CASST) and other collective and individual anti-piracy initiatives, we hope to see: stricter, well publicized enforcement of the law by law enforcement officers; recognition by the courts that theft of satellite signals is indeed theft; tougher penalties through amendments to Canadian legislation currently under review by Parliament; and, more effective cooperation between Canadian and American authorities. With regards to the blue market, better controls and enforcement by Bell ExpressVu, the satellite provider who has acknowledged the need to address this problem, will be the defining factor in dealing effectively with this illicit market segment. In the interim, we must plan while keeping in mind that major progress on this front may require yet more time. Cogeco Cable actively enforces the security of its network on an ongoing basis.

Turning to capital investments, in broadcasting, capital expenditures remain modest at about $5 million and in line with depreciation. In cable, we have been on a plan to gradually reduce the sum of capital expenditures and deferred charges as our network approaches its optimal state of being 87% two-way and broadband, in line with market potential, with broadband being defined as 550 MHz and higher. With capital expenditures and deferred charges reduced to $117 million, this year has seen the first occurrence of positive Free Cash Flow, since fiscal 1996, of $3 million. Broadcasting should of course continue to increase the Free Cash Flows it already generates.

This pattern in cable is attributable to two fundamental trends. First, the sophistication of digital compression and multiplexing techniques provides for greater carrying capacity in our existing networks. This, in turn, reduces the need for further rebuild activity, thus limiting capital expenditures. Second, with the advent of the low cost Motorola DCT-700 all digital terminal (around $100 Cdn), more people will have access to our digital services including VOD with lower terminal costs and much reduced terminal-related deferred charges on Cogeco Cable's balance sheet! As a result, more people will be in a position to use VOD and consume sophisticated digital services. Management is currently analyzing a scenario to reap bandwidth in an all-digital conversion scenario. This avenue, while complex, appears promising.

In cable, Cogeco Cable continues on its mission to tap a greater share of the discretionary spending of the customers we serve, on home information, entertainment and communications. We have no specific plans to launch cable telephony at this point in time, as this solution and more workable regulatory interconnection rules have not been forthcoming. Yet, the strength and sophistication of the cable platform make it unparalleled in its ability to offer the full bundle of complex services, interactive in real time, such as VOD and eventually video telephony at attractive consumer prices, on a single bill and, of course, a single wire. Cogeco Cable continues to seek acquiring attractively priced cable systems that fit its geographical coverage pattern.

In television broadcasting, TQS is clearly emerging as the main challenger to market leader TVA. There is tremendous audience market share potential available for TQS to grow which will ultimately translate into growth and profitability for CRTI in an important way. In radio broadcasting, the new RYTHME FM network is also a source of potential growth as it is deployed beyond Montréal and Québec City with the addition of recently licensed stations in Trois-Rivières and Sherbrooke next year. Cogeco Radio-Télévision will concentrate on delivering well on these challenges for the foreseeable future.

COGECO is determined to rebuild its Return on Equity[1] (ROE) to levels it enjoyed prior to the destructive, lower than necessary price competition that prevailed in the distribution industries in the 2000 to 2002 period. Indeed, prior to that period, COGECO generated meaningful ROE year after year. Our efforts are directed at reestablishing this performance. The results achieved in 2002-2003 bode well for the accomplishment of these aspirations in future years.

Corporate governance is evolving rapidly. The Company believes in strong governance and follows closely all new standards and regulations. Several new disclosure features are included in the annual shareholder proxy circular and this annual report.

The Company is continuously looking for ways to improve its governance practices. On April 4, 2003, the Audit Committee of the Board of Directors revised its charter after careful consideration of the *Sarbanes-Oxley Act*, the Toronto Stock Exchange guidelines and the proposed changes thereto of November 28, 2002 and the various courses of action available to it. The result in our view is a progressive charter, exacting in every respect, inspired by high standards, one that we can look at to protect the interests of all shareholders in the hands of this independent Audit Committee, and we are grateful for the Committee's work in this respect. The Audit Committee will review and reassess annually the adequacy of the charter and due consideration will be given to the new rules on audit committees proposed by the Canadian securities regulators when adopted in their final form.

The Board of Directors and three of its four standing committees now have formal charters setting out their duties and responsibilities. A new Board of Directors charter and Human Resources Committee charter were adopted at the last Board meeting. All these charters, along with the Governance Committee charter, are available on our website. A particularly thorough Corporate Code of Ethics for all members of the COGECO family of companies is now also in place, which deals with such matters as respect for individuals, customers, society, the environment, business standards, corporate policies and the law and applies to the companies, management and staff.

There is tremendous audience market share potential available for TQS.

The Board of Directors has been particularly diligent in carrying out its many duties, in particular charting an appropriate course of action through ongoing strategic planning both for cable and broadcasting, each facing very different circumstances. We wish to thank the Board for its insight and discernment in providing much appreciated guidance.

We also wish to thank all members of management and personnel who have contributed so meaningfully to the orderly growth of COGECO both in cable, where Cogeco Cable has become more profitably customer focussed, and in broadcasting, where CRTI finds and develops new markets to profitably grow in. Their dedication to meeting customer needs and competitive challenges continues to be the basis for the sustained progression of this company and we express our gratitude to all members of the COGECO team.

Maurice Myrand
Chairman of the Board

Louis Audet
President and Chief Executive Officer

October 24, 2003

(1) Return on Equity is defined as net income divided by average shareholders equity.

Management's Discussion and Analysis

The following analysis discusses our operations, financial condition and outlook. This analysis should be read in conjunction with the Company's consolidated financial statements, which start on page 23. Management's Discussion and Analysis ("MD&A") is presented in the following sections:

(1) Overview of Our Business describes our strategy and objectives and the uncertainties and main risk factors faced by our Company.
(2) Performance Highlights reviews significant developments of fiscal 2003 and compares actual results to the financial objectives set out in last year's MD&A.
(3) Operating and Financial Results provides a detailed analysis of how fiscal 2003 results compare with those of fiscal 2002.
(4) Cash Flow Analysis describes the sources and uses of funds in fiscal 2003 compared to fiscal 2002.
(5) Financial Position describes the changes in the balance sheet as of August 31, 2003 compared to a year earlier.
(6) Capital Resources and Liquidity addresses how capital resources and the risks related to foreign exchange fluctuations are managed.
(7) Fiscal 2004 Financial Guidelines highlight key financial objectives for fiscal 2004.
(8) Accounting Policies discusses measures that are commonly used in the telecommunications and media industry for comparison purposes and to assess the financial performance of the on-going business but are not defined terms under Generally Accepted Accounting Principles (GAAP). This section also describes changes in accounting standards that our Company has adopted in fiscal 2003 and will implement in fiscal 2004, and the related impact on our financial statements.
(9) Quarterly Information provides tables on selected quarterly data for fiscal 2003 and 2002.

Fiscal 2003 has been a turnaround year for the cable subsidiary.

Certain statements in this annual report may constitute forward-looking statements that involve risks and uncertainties. Future results will be affected by a number of factors pertaining to technology, markets, competition and regulation, including those described in the "Uncertainties and Main Risk Factors" section of this MD&A. Therefore, actual results may be materially different from those expressed or implied by such forward-looking statements.

(1) Overview of Our Business

COGECO is a diversified communications company with operations in the cable and media sectors.

Its 39.3% owned Cogeco Cable subsidiary is the second largest cable operator in each of Ontario and Québec and the fourth largest in Canada based on the number of basic service customers it serves. Cogeco Cable provides video, digital cable and HSI services to approximately 821,000, 163,000 and 205,000 customers, respectively. Fiscal 2003 has been a turnaround year for the cable subsidiary as it benefited from past system upgrades as well as renewed marketing approaches, improved processes and cost control measures initiated since fiscal 2002.

Through its wholly owned CRTI subsidiary, COGECO operates, in partnership with CTV Television, the TQS network, six TQS television stations, and three television stations affiliated with Société Radio-Canada (SRC). CRTI also wholly owns and operates radio stations 105.7 RYTHME FM in Montréal and 91.9 RYTHME FM and FM 93 in Québec City. CRTI will launch two new RYTHME FM radio stations in Sherbrooke and Trois-Rivières in the Fall of 2004.

On February 15, 2002, CRTI and Bell Globemedia, the parent company of CTV Television, completed their joint acquisition of Québecor's interest in the TQS television network and stations. The new venture, with a 60% proprietary interest by CRTI and 40% by CTV Television, regroups the TQS network, TQS stations in Montréal and Québec City and a repeater station in Rimouski. The partnership also includes the six pre-existing CRTI television stations in Sherbrooke, Trois-Rivières and Saguenay, affiliates of both SRC and TQS in each city that were rolled into this venture.

Business Strategy and Objectives

COGECO is dedicated to increasing shareholder value. Consequently, employee incentive plans are based on performance criteria tied to value creation. A corporate bonus is paid on the basis of annual Operating Income growth, the evolution of Indebtedness and their theoretical impact on share price. Taking into account the level of equity participation in its subsidiaries, most investors value COGECO according to these financial benchmarks. As a result, COGECO focuses on maximizing profitability while managing efficiently its use of capital without jeopardizing future growth. The following strategic imperatives have been identified for each sector as critical to shareholder value creation:

Cable Sector

Customer retention and increased penetration of higher margin digital and HSI services

Minimizing customer churn[1] reduces installation and acquisition costs to win back customers. Our market research reveals that customers are overwhelmed by the product offerings available in the market place and that comparison between competing services is difficult. Customers change service providers primarily based on their value perceptions of competing services. Therefore, efforts planned for fiscal 2004 to improve our brand credentials include: more targeted and simplified advertising campaigns, an enhanced customer retention strategy, a heightened focus on superior execution at all customer contact points and a continued investment in consumer research and segmentation activities.

Improving our brand credentials should lead to greater customer retention and increased penetration of digital and HSI services. Increasing average revenue per customer results in greater profitability since a portion of operating costs per customer is fixed. To further maximize this profitability, Cogeco Cable focuses on selling higher margin services. The strategy for basic cable services is to defend the customer base and grow penetration opportunistically. The plan of action for digital services is to grow the digital base through customer acquisitions and migration from the basic customer base. As well, we focus on increasing the value per digital customer by upselling services such as VOD. The strategy for HSI is to focus on the more profitable HSI Standard and Pro segments of the market. Currently, HSI Lite is only offered on a retention basis.

New and value added bundles

In line with its objective of offering customers more choices at affordable prices, Cogeco Cable is in the process of launching new services including:

- Smaller and more affordable digital theme packs in Québec to better respond to the French language market demand.
- Increased flexibility in combining digital pick packs with theme packs in Ontario. This change provides increased choice as the customer selects his preferred channels when ordering a pick pack.
- Additional enhancements to residential and commercial HSI services.
- Digital terminals with PVR functionality and HDTV tuning capability. The transmission of HDTV programming is also planned for the Fall.

Retail rate increases

While broadcasting distribution and HSI services remain fiercely competitive, management anticipates that the trend towards rising and more consistent retail pricing will continue in years to come as distribution undertakings are usually focusing on fully recovering costs and improving balance sheets as opposed to buying market share. Management believes this will provide further opportunities for rate increases while keeping service pricing competitive and reasonably affordable to customers.

Greater productivity through continued process improvement and cost control measures

Cogeco Cable intends to pursue process improvement initiatives and tight expense control. We are continuously striving to negotiate new sub-contractor, network affiliation, Internet Protocol (IP) transport and other supplier agreements at lower prices. Also, we are constantly reviewing our processes to deliver a higher quality service while achieving cost savings. The sections "Operating Costs and Management Fees" and "Fiscal 2004 Financial Guidelines" discuss key initiatives implemented by Cogeco Cable.

(1) Customer churn is defined as basic service disconnects during a period divided by basic service customers at the beginning of the period.

Targeted reductions in capital and operating expenditures based on market and consumer segment priorities

A capital committee, which includes the President and CEO as well as certain Vice-Presidents, was established to review investment strategy and capital allocation. Projects aligned with our strategy and providing acceptable return on investment are generally prioritized. Return on investment is assessed giving consideration to expected incremental costs and revenue as well as cost savings. Those analyses are completed on a case by case basis and per system where applicable.

External growth through attractively priced acquisitions

Cogeco Cable continues to seek out attractively priced acquisitions of cable systems adjacent to its current geographical coverage.

Media Sector

TQS Network

The TQS network has set a goal of increasing its market share of listening hours with Québec francophones 18 years old and over based on the following strategic imperatives:

Broadening of target audience

Going forward, TQS will aim to reach the 18 to 54 age group instead of the 18 to 49 age group. The network will also intensify its local presence in regions where it operates stations. In addition, TQS will be on the watch for contemporary trends, and by doing so will keep up with the tastes, preferences and habits of a wider target audience.

Increased investment in programming

In order to broaden its audience and increase its market share, TQS's programming investments will be targeted at:

- Developing a television programming that focuses on series and special programs of high impact, where content has a positive effect on surrounding regular programs. There are numerous advantages in this strategy, as these programs will:
  (a) Increase awareness of the station and its appeal, for this type of programming is frequently among the top ten shows watched by Québec francophones;
  (b) Lead to significant audience growth for local shows; and
  (c) Provide promotional vehicles for other shows in the schedule.
- Optimizing use of the news slot, which remains one of our distinctive programming elements;
- Reinforcing TQS's positioning as a leader in popular movie programming;
- Being more involved in local production in areas where TQS operates stations;
- Building an increasingly likable image in the eyes of an aging population.

To maximize profits, another of the TQS network's objectives is to increase productivity through the following plan of action:

Programming

A balance between program purchases and original productions must be maintained in order to preserve financial flexibility.

Other operating expenses

TQS will continue to keep a tight rein on spending. It will also continue to invest in the automation and robotization of its facilities to achieve greater productivity and flexibility.

Radio

Radio will be developed through the launch of the RYTHME FM network for which CRTI now holds four licences. The RYTHME FM stations will offer an adult contemporary popular music format consisting primarily of hits from the 70s to the present. The RYTHME FM concept targets an audience aged 25 to 54, especially women between 35 and 54. Each new station will have a very regional profile and flavour. Local programming of these stations will fill almost two thirds of the broadcast week and news bulletins will have a 70% regional news content.

The development of the RYTHME FM network will allow advertisers to diversify their advertising spots to reach a valued clientele and will create synergies at the operations level.

Creation of Shareholder Value

Successful implementation of the above strategic imperatives will lead to improved profitability and reduced Indebtedness as measured by the following financial metrics. These metrics are discussed in more detail in the "Fiscal 2004 Financial Guidelines" section:

- COGECO expects to pursue Operating Income growth of 6% to 9% in fiscal 2004 compared to 8% in fiscal 2003.
- COGECO believes it will generate Free Cash Flow of $20 million to $25 million in fiscal 2004, compared to $13 million in fiscal 2003. This increase will essentially come from Operating Income growth. Generated Free Cash Flow will be applied to reduce Indebtedness.

Cable Network

Notwithstanding a few exceptions in remote areas, Cogeco Cable's network is now fully digital, with 87% of households passed served by two-way cable plant. VOD service is now available to 85% of households. The Company is studying the possible introduction of low-cost digital terminals as a strategy to accelerate the migration to a fully digital platform to offer, among other things, to a majority of its clientele the VOD service.

Cogeco Cable's fiber optic network extends over 7,800 kilometres and includes 78,900 kilometres of optical fiber. Cogeco Cable initially deployed optical fiber to nodes serving clusters of typically 2,000 homes, with many fibers per node, which now allows the Company to further extend the fiber to smaller clusters of approximately 500 to 1,000 homes rapidly and relatively easily. On average, fiber nodes currently serve about 1,500 homes. Node splitting leads to further improvement in the quality and reliability of services offered and allows an increasing traffic of two-way services such as HSI and VOD.

Cogeco Cable is completing the conversion of its IP platform to the DOCSIS 1.1 standard (*Data Over Cable Service Interface Specifications*). DOCSIS 1.1 allows the prioritization of the signal packets that must be transmitted in real time, so as to ensure a continuous transmission flow. Furthermore, DOCSIS 1.1 enables encryption in the local loop and eases doubling of upstream throughput.

Uncertainties and Main Risk Factors

The following is a statement of the main risks and uncertainties that are considered likely to significantly affect, or have the potential to significantly affect, the financial condition, operating results or business of COGECO and its subsidiaries. This statement is not intended to cover all possible material contingencies, nor is there any assurance that the risks and uncertainties discussed in this statement will actually unfold as expected, or have the anticipated consequences.

Market Conditions and Competition

Cable Sector

Cogeco Cable's activities are conducted essentially in the field of the distribution of video and audio programming services, non-programming services and telecommunication services through wireline broadband systems. These broadband services are marketed to residential and business customers. The market for these broadband services continues to be very competitive in Canada. There are several wireline and wireless competitors vying for more customer connections, a greater share of the available budget of residential customers, and long-term arrangements with property owners or managers and business customers. All competitors have high exit costs.

COGECO believes it will generate Free Cash Flow of $20 million to $25 million in fiscal 2004, compared to $13 million in fiscal 2003.

Rivalry between broadband service competitors, although intense, has recently shifted to some extent from retail price cutting to value propositions in the form of bundles of discrete services for a single price, incentives on terminal equipment required to receive the services, and time-limited introductory offers for new customers. Largely as a result of this shift in competitive pricing strategies, retail prices have tended to be more stable and have actually moved upward for the distribution of programming services over the last fiscal year. This has had a positive impact on Cogeco Cable's operating margins. There is, however, no assurance that this trend will continue.

One of the main competitors of Cogeco Cable, Bell Canada, has decided to offer service bundles that include video and audio programming, HSI and telephony services with single integrated billing. Cogeco Cable has not rolled out telephony services or concluded joint marketing arrangements with alternative telephone service providers, and may face a new competitive challenge as a result. The bundling of telephone services with video and Internet services by Bell Canada and other incumbent local exchange carriers (ILECs) is currently under review by the CRTC.

The market for analog programming services on cable is generally considered mature, while the market for digital services and HSI services on cable is more recent and is generally considered to have significant potential for additional growth. HSI services are a main contributor to Cogeco Cable's revenue growth and Operating Income. The growth in HSI service subscriptions has lagged in Québec compared to Ontario in the past, and it may abate more quickly than expected. Third party suppliers have been given the right to market HSI services offered through the broadband facilities of cable and telephone networks. Internet access service providers such as AOL Canada have decided to offer HSI services in competition with telephone and cable companies. While third party access or resale has not had a significant impact to date, there is no assurance that it will not affect Cogeco Cable's future growth or market share for HSI services.

CRTI has launched a new RYTHME FM station in Québec City in August 2003 and will launch new RYTHME FM stations in Sherbrooke and Trois-Rivières in 2004.

The new digital programming services launched in September 2001 as part of Cogeco Cable's digital service have in most cases been unable to meet their subscriber penetration, audience and advertising revenue projections. A few of these upstart programming services have already ceased operations, and more may do the same in the near term. Also, it remains unclear whether the four new French-language digital programming services licensed in 2000 will meet their final deadline and launch before September 2004. The lift on digital service revenue anticipated from the deployment of the VOD platform will depend, in good measure, on Cogeco Cable's ability to conclude suitable VOD exhibition license agreements with program suppliers, including several major Hollywood movie studios.

The market for video service distribution in Canada continues to be negatively affected by the theft of satellite signals, both from unlicensed US direct broadcast satellite (DBS) services (often referred to as the "black" market) and from licensed Canadian direct-to-home (DTH) satellite services (often referred to as the "blue" market). While a combination of public awareness campaigns, public and private enforcement actions and seizures have hit some of the key distributors of satellite signal pirating devices and software in Canada, the technical opportunity and the economic incentive for widespread theft of satellite signals both remain unabated. Efforts to repatriate an estimated one million unauthorised residential users in Canada have not been successful to date. While the federal government has announced plans to amend the *Radiocommunication Act* (Canada) with a view to providing stiffer penalties and improved means for controlling the importation and use of pirating devices and software, the timetable for enactment of the amending legislation and its coming into force remains uncertain.

Media Sector

The activities of CRTI and its subsidiary TQS are conducted essentially in the field of over-the-air broadcasting. All the CRTI radio and television stations are located in the province of Québec and broadcast French-language programs. The market for French-language radio and television broadcasting is generally considered as mature, with a small number of integrated broadcasting groups competing for the greater part of available audiences and advertising expenditures. While some of these groups have integrated into television specialty services and non-broadcast media such as newspapers, magazines or billboards, CRTI remains focussed on conventional radio and television broadcasting in the French-language in the province of Québec. Competition in the French-language television and radio markets is intense, and CRTI faces a dominant competitor in both these markets. CRTI has launched a new RYTHME FM station in Québec City in August 2003 and will launch new RYTHME FM stations in Sherbrooke and Trois-Rivières in 2004 to improve its competitive position versus other private radio networks in the province of Québec. Notwithstanding these planned initiatives, there is no assurance that additional audience, advertising market share or profits will follow as planned.

The value of advertisements placed in scheduled radio and television services faces increased erosion as a result of changing consumer patterns and the availability and use of computerized personal recording and other home electronic devices. General interest television network audiences are increasingly fragmented from a variety of sources, including specialty, pay and on-demand television services, Internet-based services and other electronic media. Audience and advertising revenues for local television stations located outside the major markets of Montréal and Québec City face further audience and advertising revenue erosion as they are not fully carried by all Canadian DTH satellite distributors and advertisers tend to direct more of their available budgets to network and major market exposure.

Audiences for radio and television can quickly fluctuate depending on on-air talent, program and scheduling decisions or events. CRTI is in the process of rebuilding audience and advertising market share for its FM 93 station in Québec City. The TQS network has made several changes to its Fall 2003 schedule, including a new early morning show *Caféine* and a new reality show *Loft Story*, but there is no assurance that additional audience, advertising market share or profits will follow as planned.

Technology

Cable Sector

The rate of innovation and improvements in both wireline and wireless broadband technology remains very quick-paced. The hybrid fiber-coaxial (HFC) platform used by Cogeco Cable for its cable systems remains an effective and reliable means of delivering a wide range of broadband services to the home, but there is no assurance that the competitive balance between wireline systems, or between wireline and wireless systems, will not shift in the future. The open standards and equipment certification process developed by the North American cable industry through CableLabs has contributed to the success of the HFC platform in the era of digital IP-based transmission. However, Cogeco Cable's digital services still require the use of a separate proprietary technology provided by Motorola that is not IP-based. Recent breakthroughs in low-cost digital terminals for video services achieved by Motorola provide an opportunity to push digital services much more effectively. However, the full conversion of different local cable systems to complete digital transmission capability, with the resulting efficiencies in the use of available bandwidth, still faces unresolved operational, marketing and regulatory challenges. In the meantime, funds available for system capacity upgrades required to distribute high-definition and other additional video services to the same extent as satellite distributors may be constrained. Work on improvements to back-up and redundancy capabilities for the Cogeco Cable's plant, head end and server facilities, particularly in connection with HSI services, will extend over the next fiscal year.

Media Sector

As the use of the Internet increases and IP broadband distribution technology improves, increasing quantities of audio and video information and entertainment material is exchanged or consumed via the Internet. While audio or video programs streamed over the Internet have not overtaken conventional broadcasting delivery, there can be no assurance on the future impact of changing consumer patterns in this regard.

Regulation

The activities of the Company's operating subsidiaries are regulated mainly under the authority of the *Broadcasting Act* (Canada) and the *Telecommunications Act* (Canada). The CRTC, which is responsible for exercising regulatory supervision and control under both statutes, has developed extensive regulatory frameworks for broadcasting and telecommunications. Changes in the rules comprising these respective frameworks, their timing and their implementation can have a significant impact on the financial condition, operating results or business of the Company and its subsidiaries.

The Company is also subject to Canadian ownership and control requirements that limit the extent to which equity can be issued by itself and by its subsidiaries to non-Canadian residents, and that preclude control by non-residents. While these requirements have been under governmental and parliamentary review during the last year, there is no assurance that these requirements will be changed or removed for the Company or any of its subsidiaries, or on the timing of such change or removal.

Costs

Cable Sector

Cost of sales of the cable sector is mainly comprised of network fees for programming services, copyright fees and IP transport fees for HSI. Cable distributors throughout North America have been faced with rising network fees over the last few years, with resulting downward pressure on their operating margins. A key objective of Cogeco Cable is to stop the trend toward contracted increases in network fees and to lower the cost of sales as a ratio of revenue derived from programming services. While Cogeco Cable has used every possible opportunity to reduce network fees and has made some progress in the last fiscal year, it faces difficult hurdles on the road to further improvements. First, specialty and pay television programming services, whether Canadian or foreign, are controlled by a small number of large integrated communications groups. Second, Canadian specialty and pay television programming services are protected by the regulatory framework in effect through mandatory carriage or access rules, legacy analog distribution rules, tiering and linkage rules, specialty service carriage status rules, regulated wholesale fees and the requisite CRTC dispute resolution mechanism. Third, the illegal satellite reception market, which continues to thrive in Canada, contributes nothing towards the costs of programming for these programming services while fragmenting the cable distribution market.

Cogeco Cable pays retransmission fees for distant television and radio signals under tariffs approved under the authority of the *Copyright Act* (Canada). Rights collectives have filed new tariffs proposing substantial increases in retransmission fees. Rights collectives have also filed proposed tariffs respectively for pay audio services distributed to residential customers, and for background music services distributed to commercial establishments. These tariffs are currently under review by the Copyright Board.

Cogeco Cable has benefited for its HSI transmission and connectivity requirements from the large capacity of installed fiber transmission facilities available from carriers in Canada and the intense price rivalry in that sector. As the sector further consolidates and excess capacity is absorbed by the market, cost efficiencies may be more difficult to achieve in the future for IP transport facilities.

The Supreme Court of Canada has recently confirmed the jurisdiction of the CRTC under the authority of the *Telecommunications Act* (Canada) to set terms for access to municipal street allowances and property for cable and other telecommunications carrier facilities in case of a dispute between the parties. In an earlier decision however, the Supreme Court of Canada ruled that the CRTC cannot set terms for the use of support structures owned by electric power utilities under the authority of the *Telecommunications Act* (Canada), in its present form. Provincial utility regulators may eventually take over this responsibility, or the *Telecommunications Act* (Canada) may eventually be modified to assert clearly the authority of the CRTC in also settling such disputes. Terms for the use of support structures owned by telecommunications carriers such as Bell Canada remain subject to CRTC approved tariffs. Contract renewals with electric power utilities are pending for approximately two thirds of the poles used by Cogeco Cable in Ontario. The two largest electric power utility suppliers of support structures for Cogeco Cable's plant are Hydro One in Ontario and Hydro-Québec in Québec. The Hydro One contract is due to expire on December 31, 2004 and the Hydro-Québec contract is due to expire on December 31, 2005. Cogeco Cable expects that its average cost per pole will likely rise in the next few years but cannot determine the extent of the increase at this time. Relations with suppliers of support structures are considered satisfactory and contract negotiations are proceeding in the normal course of business.

Media Sector

TQS has committed additional resources to launch new programs starting with the Fall 2003 broadcast season. TQS has entered into a production and license agreement with an independent production house for *Loft Story* that provides for a fixed funding commitment. There is no assurance that these incremental programming expenditures will be fully offset by incremental revenue.

Information Systems

Cogeco Cable has concluded a new agreement commencing on September 1, 2003 for the continued use and maintenance of the customer management platform used in Ontario and supplied by DST Innovis. Cogeco Cable will continue to use a different customer management platform in Québec and has implemented substantial changes separately to that platform rather than taking an integrated systems approach. These developments bring more certainty and predictability of costs for the customer management function in the medium term. CRTI is in the process of implementing a new traffic management system for its radio and television operations.

The current IT environment, combined with the extensive reliance on information systems for the conduct of activities and operations in both business sectors, involves significant risks of data loss and business interruption in the event of major disasters, terrorist action, unauthorised access, or malicious tampering. Insurance undertakers no longer provide coverage for these risks under the existing insurance programs, which are managed through internal controls, security and disaster recovery plans and procedures. There is no assurance that these plans and procedures will effectively prevent or limit loss of data or business interruption in a particular event, or that data or business recovery will take place as planned.

Labour Relations

The collective agreements in the Québec Division of Cogeco Cable expired on December 31, 2002, and negotiations for renewal terms are under way. Approximately 27% of the Cogeco Cable's aggregate workforce is covered by those collective agreements. While labour relations are considered satisfactory and negotiations are progressing in the normal course, the impact of renewal terms will not be known until negotiations are concluded. Management does not expect any labour disruptions at this time. There are no collective agreements in the Ontario Division.

In the media sector, the collective agreements of TQS in Québec City and Saguenay have expired and both are now in the conciliation stage. The Trois-Rivières agreement has also expired. CRTI considers that its labour relations are satisfactory.

Litigation

COGECO or its subsidiaries of the media sector are exposed to claims arising from alleged defamatory statements as part of conducting radio and television broadcasting activities. Most of the pending claims arose in connection with certain talk show programs aired by the FM 93 radio station prior to 2002. COGECO is of the view that all pending claims are without merit and will continue to defend itself through the normal court process.

	August 31, 2003	Net additions (losses) 2003 Actual	2003 Guidance	2002 Actual	% of Penetration (1) August 31, 2003	2002
Customer Statistics						
Revenue generating units	**1,188,369**	64,011	58,000	41,405	**NA**	NA
Basic service customers	**820,657**	(15,711)	(19,000)	(42,398)	**NA**	NA
HSI customers (2)	**205,179**	46,987	55,000	50,254	**28.5**	22.1
Digital terminals (3)	**183,087**	38,137	25,000	39,658	**22.8**	18.4
Bundled service customers (4)	**288,080**	46,394	NA	53,760	**35.1**	28.9

(1) As a percentage of basic service customers in areas served.
(2) 5,652 HSI Lite and 577 HSI Pro customers are included. Taking into account pending orders, the number would amount to 210,974 compared to 164,318 a year earlier.
(3) 77% of terminals were purchased compared to 62% a year earlier.
(4) 48% of bundled service customers had the digital service compared to 44% last year.

(2) Performance Highlights

Cable Sector

In fiscal 2003, Cogeco Cable exceeded most of its financial and customer additions objectives.

Customer Statistics

Basic service customer loss was 1.9% during fiscal 2003 compared to an initial target of 2.3% and the 4.8% loss during fiscal 2002. Despite rate increases discussed further in the "Revenue" section, these losses were lower than anticipated owing to effective marketing and customer service, combined with the continued success of service bundling. The installed digital terminal base expanded by 26% with 183,087 digital terminals in service as of August 31, 2003, exceeding the original target of 170,000.

Subscriptions to the HSI service rose by 30%. HSI customer additions were lower than anticipated due, in part, to a slowing demand for HSI as the penetration rate increases. Additionally, Cogeco Cable's current strategy is to maximize profitability per HSI customer by focusing its acquisition efforts on the HSI Standard and Pro segments of the market. Unlike its competitors, HSI Lite is only offered on a retention basis.

Financial Results and Cash Flow

Cogeco Cable achieved 7% revenue growth, exceeding its initial 5% target. The target was surpassed because basic service customer losses were lower than anticipated and unbudgeted rate increases were implemented last January, June and July. Cogeco Cable's Operating Income margin increased from 37.6% in fiscal 2002 to 38.3% in fiscal 2003, slightly better than the goal of 37.9%. This improvement is due to cost reduction initiatives, ongoing process improvements as well as rate increases.

Financial expense went up by 2.5%, lower than the 6% target as short-term interest rates as well as capital expenditures were lesser than anticipated. Depreciation of fixed assets and amortization of deferred charges rose by 12.7%, higher than the target of 10%. Deferred charges relating to customer subsidies were greater than anticipated since Cogeco Cable sold more digital terminals than expected. These deferred charges are amortized over 4 years, more rapidly than most categories of fixed assets. Capital expenditures and increase in deferred charges amounted to $117.0 million, $2.0 million lower than planned, and were entirely financed by Cash Flow.

Free Cash Flow of $3.3 million was generated as a result of greater Operating Income and lower capital expenditures than planned. The break-even target for the cable sector was surpassed.

Media Sector

CRTI's revenue rose by 48.2%, slightly below its 50% target. Operating Income margin was 14.4%, meeting the goal of 14%. CRTI's financial targets were essentially achieved from the contribution of the TQS network as radio revenue declined by 1.9%.

(3) Operating and Financial Results

Operating Results

The Company's revenue totaled $603.8 million, an increase of $71.8 million or 13.5%. This growth resulted from an increase in revenue of $31.3 million (7.0%) in the cable sector and $40.5 million (48.2%) in the media sector. Growth in the cable sector was driven by improved penetration of HSI as well as rate increases. Expansion in the media sector stemmed from the full year impact of the TQS acquisition on February 15, 2002 and organic growth of 4.5%.

Operating costs amounted to $400.7 million in fiscal 2003, compared to $344.7 million in fiscal 2002. With respect to Operating Income, it went from $187.3 million in fiscal 2002, to $203.1 million in fiscal 2003, an increase of 8.4%. The cable sector contributed $15.0 million to this improvement while the media sector generated a $1.1 million increase.

The cable and media sectors exceeded most of their financial objectives.

(in thousands of dollars except percentages)

Years ended August 31,	2003	2002	% Change
Fixed Charges			
Depreciation and amortization			
Fixed assets	**$ 96,678**	$ 87,673	10.3
Deferred charges	**14,938**	10,590	41.1
Total	**$ 111,616**	$ 98,263	13.6
Financial expense	**$ 62,776**	$ 60,816	3.2

Fixed Charges

Depreciation and amortization growth results from increases of $12.1 million and $1.2 million in the cable and media sectors respectively.

The cable system modernization program, capital expenditures linked to HSI and digital services and higher deferred charges explain the increase in the cable sector. Amortization of deferred charges mainly includes subsidies associated to sales of home terminal devices and a portion of advertising expenses related to the additions of digital and HSI customers. Amortization of deferred charges also includes new services launch cost and up-front financing costs related to recent debt financing.

The greater depreciation and amortization in the media sector is attributable to the full year impact of the TQS acquisition.

Financial expense went up because of the issuance in November 2001 of Senior Secured Notes related to the cable sector bearing a higher average interest rate than the Term Facilities. Also, short-term interest rates on the Term Facilities were higher in fiscal 2003. The average interest rate was 7.3% in fiscal 2003 compared to 7.0% in fiscal 2002.

Unusual Items

During fiscal 2003, the Company recorded no unusual items. In fiscal 2002, unusual items amounted to a net gain of $23.3 million before income taxes, mainly attributable to the media sector. The unusual items stemmed from a gain on dilution further to the TQS acquisition of $34.4 million, from a charge of $5.5 million recorded by COGECO as a result of staff reductions and from the $5.7 million write-off of its minority investment in Stornoway Communications because of disappointing audience results.

Net Income

In fiscal 2003, net income from recurring operations amounted to $9.9 million or $0.61 per share, compared to $11.6 million or $0.72 per share in fiscal 2002. This decrease was partly attributable to declining profitability of the radio operations due to the departure of a key host. In addition, since COGECO has reduced its proprietary interest in the television operations to 60% on February 15, 2002, the Company has retained a lesser share of profits compared to the previous fiscal year. The partnership agreement was concluded upon the acquisition of the TQS network. In fiscal 2003, net income amounted to $9.9 million or $0.61 per share, compared to $40.4 million or $2.49 per share in fiscal 2002. The decrease in net income is mainly related to unusual items recorded in fiscal 2002 as discussed above.

During fiscal 2003, COGECO did not award any stock options (80,104 in fiscal 2002) and its subsidiary Cogeco Cable granted 141,020 stock options (161,909 in fiscal 2002). As discussed in Note 13 on page 38, COGECO has valued the granted options since September 1, 2001 to provide the impact as if the value of these options had been expensed. Accordingly, expensing the options granted by COGECO and Cogeco Cable would have reduced COGECO's net income by $324,000 in fiscal 2003, compared to $307,000 in fiscal 2002. Also, TQS granted options that were expensed for a total amount of $1,667,000 and $618,000 in fiscal 2003 and 2002, respectively.

Cable Sector

Revenue

Revenue rose by $31.3 million, or 7.0%, mainly from HSI services penetration improvement and various rate increases as discussed below:

- HSI customer additions during fiscal 2002 and 2003 generated incremental revenue of approximately $26.2 million over fiscal 2002. The addition of about 47,000 new HSI customers during fiscal 2003 contributed approximately $12.7 million to this growth. The balance resulted from the full-year impact of the net gain of over 50,000 HSI customers during fiscal 2002.
- Various rate increases during fiscal 2002 and 2003 created incremental revenue of $16.3 million. A $5 monthly rate increase for HSI customers in Ontario and Québec was introduced during the second half of fiscal 2002. Subsequent to the basic rate deregulation authorised by the CRTC, average monthly rate increases of about

(in thousands of dollars except percentages)

Years ended August 31,	2003	2002	% Change
Cable Sector			
Revenue	$ 479,293	$ 447,984	7.0
Operating costs	288,080	271,928	5.9
Management fees – COGECO Inc.	7,869	7,710	2.1
Operating Income	$ 183,344	$ 168,346	8.9
Operating Income margin	38.3%	37.6%	

$2.50 in Québec and $2.75 in Ontario were implemented in August 2002 and January 2003, respectively, for customers subscribing to basic service only. Cogeco Cable introduced further rate adjustments effective in June for the Ontario customer base and in July for the Québec digital customer base. These adjustments resulted in incremental average monthly rates of approximately $1.75 per basic service customer in Ontario and approximately $2.20 per digital customer in Québec.

Various sources, including installation, new digital services and VOD, contributed an additional $4.9 million to revenue growth.

The organic growth, detailed above, was offset by internal revenue loss of $16.1 million associated mostly with basic and extended tier customer losses and with aggressive promotions:

- The loss of basic and extended tier customers in fiscal 2002 and 2003 had a negative impact of $12.1 million on revenue. The loss of about 16,000 customers taking basic or basic and extended tiers, during fiscal 2003, led to a $2.7 million decline in revenue. The balance resulted from the full-year impact of a net loss of over 42,000 customers taking basic or basic and extended tiers during fiscal 2002.
- Revenue lost from promotions or discounts amounted to $10.3 million in fiscal 2003 compared to $6.6 million in fiscal 2002. To maintain its competitive position, Cogeco Cable continued to offer monthly promotional rebates to its new HSI customers. These rebates ranged from a total of $60 to $105 per new customer during the various promotional periods compared to $40 to $120 per new customer in the prior fiscal year. In addition, the cable sector offered programming credits of up to $100 per new digital customer buying a digital terminal.

Average monthly revenue per basic service customer (ARPU) increased from $43.57 in fiscal 2002 to $48.00 in fiscal 2003, a 10.2% increase. Most of this increase resulted from improved penetration of HSI services and rate increases.

Operating Costs and Management Fees

Operating costs increased by $16.2 million, or 5.9%, mainly as a result of the factors discussed below:

- Network fees rose because of increased penetration of bundled services and program supplier fee increases. However, network fees as a percentage of revenue have decreased in fiscal 2003. A large part of this decline is related to lower bandwidth costs incurred to service HSI customers. IP transport costs have decreased by $0.9 million or 9% despite the 30% increase in HSI customers during fiscal 2003. Further savings of $0.8 million were achieved from relocating the TSN channel to the basic service in Ontario in January 2003. In addition, contributions to the Canadian production fund declined by $0.5 million as a result of changes to the CRTC's regulation.
- The rise in other operating costs is largely attributable to marketing acquisition costs incurred to increase revenue generating units, pole attachment fee increases and costs incurred to improve customer support services. Since financial results have improved in fiscal 2003, employees earned their corporate bonus amounting to $3.0 million; no corporate performance bonuses were earned in fiscal 2002.

Management fees to COGECO Inc., the parent company, represented approximately 1.6% of revenue in fiscal 2003, a marginally smaller proportion of revenue compared to fiscal 2002. For fiscal 2004, these fees will be increased by 2.0% (indexed to the Consumer Price Index).

Operating Income

Operating Income improved by $15.0 million or 8.9% as a result of revenue growth outpacing cost increases. Cogeco Cable's focus on improving its Operating Income margin has resulted in the margin moving up from 37.6% in fiscal 2002 to 38.3% in fiscal 2003.

(in thousands of dollars except percentages)

Years ended August 31,	2003	2002	% Change
Media Sector			
Revenue	**$ 124,481**	$ 84,014	48.2
Operating costs	**106,616**	67,261	58.5
Operating Income	**$ 17,865**	$ 16,753	6.6
Operating Income margin	**14.4%**	19.9%	

Media Sector

CRTI's revenue rose by $40.5 million, or 48.2%. Television revenue grew by 54.6% due to the full year impact of the TQS acquisition and by 6.0% from organic growth through improved advertising, a more effective sales force and the positioning of TQS as a complete network for the province of Québec. Radio revenue declined by 1.9% mainly as a result of the departure, during the second quarter, of a FM 93 Québec City station radio host. However, changes in the radio station were implemented in order to curtail market share erosion and rebuild advertising revenues.

Operating costs rose by $39.4 million or 58.5%, a result of the full year impact of the TQS acquisition and television organic growth. Operating Income increased by $1.1 million or 6.6% due to the above explanations. The lower Operating Income margin in fiscal 2003 results from the impact of the recently acquired TQS network. The network incurs a greater portion of programming costs compared to affiliated television stations.

(4) Cash Flow Analysis

Operating Activities

Cash flow from operating activities includes Cash Flow, net changes in non-cash working capital items and unusual items. Cash Flow is greater than last year by $12.0 million or 9.6% due to the growth in Operating Income of both sectors. The impact of changes in non-cash working capital items amounted to a cash inflow of $12.8 million in fiscal 2003, compared to a cash inflow of $15.9 million in fiscal 2002. The lower cash inflow from working capital items is mainly related to increased investments in broadcasting rights to improve TQS's programming. Unusual items required a cash outflow of $4.9 million in fiscal 2002. On a per share basis, Cash Flow increased from $7.73 in fiscal 2002 to $8.46 in fiscal 2003 as a result of improved Operating Income.

Investing Activities

Investing activities related to capital expenditures decreased from $126.3 million in fiscal 2002 to $106.4 million in fiscal 2003 because of lesser capital investments in the cable sector. Capital expenditures related to cable upgrades decreased by $11.6 million given that 87% of households are currently served by two-way cable plant and digital services are offered to almost all households. Furthermore, capital expenditures related to support capital declined by $9.1 million due, in part, to fewer information technology projects having been initiated in fiscal 2003. For fiscal 2004, the Company intends to invest $113 million in its capital expenditure program, with $107 million being directed toward the cable sector and the balance towards the media sector. Part of the increased capital expenditures should relate to additional node splitting to further enhance reliability and quality, and to accommodate an increasing traffic of Internet and VOD services. The 2004 capital expenditure guidelines could be revised downward as the capital committee will closely review all projects.

Increase in deferred charges declined to $17.1 million in fiscal 2003 compared to $29.0 million in fiscal 2002.

(in thousands of dollars)

Years ended August 31,	2003	2002
Cash Flow Analysis		
Operating Activities		
Cash Flow	**$ 137,447**	$ 125,461
Net changes in non-cash working capital items	**12,805**	15,907
Unusual item	**—**	(4,925)
	$ 150,252	$ 136,443
Investing Activities	**$ (123,436)**	$ (224,782)
Financing Activities	**$ (26,816)**	$ 86,184

$5.8 million of this reduction relates to lower equipment subsidies and advertising costs to expand the digital and HSI customer base. Deferred charges of $5.6 million, incurred in fiscal 2002 for various debt refinancings, were not incurred in fiscal 2003. In fiscal 2004, a reduction of $6 million in the increase in deferred charges is planned as demand for digital terminals is expected to slow down and the terminal unit cost should continue to decline.

In coming years, capital expenditures in the cable sector and subsidies related to customer premises equipment are expected to decrease as unit prices should continue to decline and as such devices will be increasingly integrated in Consumer Electronics products like PCs, television sets and DVDs. Numerous technology changes and improvements will also contribute to reduce capital expenditures in general and systems rebuilds in particular.

In fiscal 2002, investing activities included an amount of $66.6 million related to the acquisition of an 87% interest in television network TQS. The acquisition was completed in partnership with Bell Globemedia. See the "Overview of our Business" section for further details on this transaction.

Free Cash Flow and Financing Activities

Both the cable and media sectors contributed to generated Free Cash Flow of $13.2 million during fiscal 2003, a first since fiscal 1996. Free Cash Flow was generated despite an initial investment of $8.5 million incurred to introduce the VOD service. Considering the quality of the existing cable infrastructure, the cable sector, which incurs most of the capital expenditures and deffered charges, believes it can pursue growth while maintaining its investing activities at or below the current level.

In fiscal 2003, repayment of long-term debt amounted to $22.3 million as a result of Free Cash Flow generation and a rise in non-cash working capital items. In fiscal 2002, the net increase in long-term debt, excluding the impact of foreign exchange fluctuations, totaled $12.2 million essentially due to a Free Cash Flow deficit of $30.6 million partially offset by an increase in non-cash working capital items of $15.9 million. See the "Financial Position" section below for a discussion on the non-cash impact of foreign exchange fluctuations.

In fiscal 2003, the Company paid a dividend of $0.21 per share, the same amount as in fiscal 2002. This amount is equivalent to a quarterly dividend of $0.0525, payable to holders of subordinate and multiple voting shares.

(5) Financial Position

Since August 31, 2002, significant changes in the balance sheet include fixed assets, broadcasting rights, Indebtedness and accounts payable and accrued liabilities.

Fixed assets increased by $9.5 million as capital expenditures exceeded depreciation. Broadcasting rights increased by $11.4 million as TQS has made additional investments to improve its programming schedule. At August 31, 2003, the Company performed an impairment test of broadcasting licenses, customer base and goodwill and concluded that no decline in value existed.

Indebtedness decreased by $23.2 million as $13.2 million of Free Cash Flow was generated and non-cash working capital items increased by $12.8 million. Cogeco Cable's US$150 million Senior Secured Notes Series A translated into Canadian dollars declined by $26.0 million as the Canadian dollar appreciated. Since the Senior Secured Notes Series A are fully hedged, the decline was fully offset by an increase in the deferred credit. This credit represents the difference between the fiscal year-end exchange rate and the exchange rate on the cross-currency swap agreements, which fix the liability for interest and principal payments on the Senior Secured Notes Series A. Finally, accounts payable and accrued liabilities increased by $17.9 million as use of working capital was managed tightly.

(6) Capital Resources and Liquidity

Capital Structure

The table on the next page summarizes debt-related financial ratios over the last two fiscal years and the fiscal 2004 guidelines.

The average cost of Indebtedness has risen because of the issuance in November 2001 of Senior Secured Notes related to the cable sector bearing a higher average interest rate than the Term Facilities. Also, average short-term interest rates on the Term Facilities have increased by about 0.5% in fiscal 2003. In fiscal 2004, the fixed-rate portion of Indebtedness is expected to increase as the amount drawn from the Term Facilities should decline. The average tenure of long-term debt will decline by about one year as no new refinancings are planned for fiscal 2004.

Fiscal 2003 leverage and interest coverage ratios improvement should continue in fiscal 2004 as management expects further Operating Income growth and debt reductions. See "Fiscal 2004 Financial Guidelines" for further details.

Years ended August 31,	2004 Guidelines[1]	2003	2002
Capital Structure			
Average cost of debt	7.3%	**7.3%**	7.0%
Fixed rate debt	86%	**84%**	82%
Average tenure: long-term debt[2]	4.4 years	**5.4 years**	6.3 years
Indebtedness / Shareholders' equity	2.2	**2.4**	2.5
Indebtedness / Operating Income[3]	3.7	**4.1**	4.5
Operating Income / Financial expense[3]	3.5	**3.2**	3.1

(1) See "Fiscal 2004 Financial Guidelines" section for further discussion.
(2) Includes the deferred credit related to the amount payable under cross-currency swaps entered into by Cogeco Cable to hedge US dollars denominated long-term debt.
(3) Operating Income is a decisive indicator of the Company's capacity to finance its ongoing operations on the one hand, and service its debt on the other.

Financing

The Company has a $40.0 million Term Facility and a $5.0 million operating line of credit extended by a group of financial institutions. TQS has a $10.0 million line of credit extended by one financial institution. These bank facilities are mainly used to answer the financial needs of the media sector. The cable sector benefits from a $400.0 million Term Facility and a $25.0 million operating line of credit with a number of financial institutions. The credit facilities in the cable sector are not guaranteed by the Company. As at August 31, 2003, COGECO and Cogeco Cable had drawn $18.5 million and $110.0 million of their Term Facility, respectively. The Company is on schedule with financial expense payments, principal repayments on its borrowing, and satisfies the various conditions stipulated in its financing agreements.

Of all the Company's debt instruments, the bank facilities set the most restrictive limitations on activities and operations. The most important restrictions cover maintaining certain financial ratios, authorized investments, disposal of assets, reimbursement of long-term debt and distributions to shareholders.

During the next five years, COGECO's required principal repayments on its long-term debt, excluding those under capital leases, amount to $258.0 million. $15.0 million and $95.0 million are for the repayment of the Cogeco Cable Term Facility in fiscal 2006 and 2007, respectively. The $18.5 million drawn from the COGECO Term Facility will be due in fiscal 2006. For the cable sector, a $125.0 million Second Secured Debentures will mature in fiscal 2007.

In November 2002, Dominion Bond Rating Service revised its rating on Cogeco Cable's Senior Secured Debentures and Second Secured Debentures downward from BBB(low) and BB(high) to BB(high) and BB, respectively. In February 2003, Standard & Poor's Ratings Services also revised its rating on the Senior Secured Debentures and Notes and the Second Secured Debentures downward from BBB and BBB- negative outlook to BBB- and BB+ stable outlook, respectively. The revised ratings should not have an impact on financial expense. With anticipated strong growth in Free Cash Flow, Cogeco Cable is well positioned to reduce its financial leverage, which should improve its debt ratings. Based on anticipated Free Cash Flow for fiscal 2004, refinancings to fund internal growth are not expected before fiscal 2007. The revised ratings could lead to increased borrowing costs, only if Cogeco Cable had to access the debt markets to finance an unexpected large acquisition or contingency.

Fiscal 2003 leverage and interest coverage ratios improvement should continue in fiscal 2004 as management expects further Operating Income growth and debt reductions.

Foreign Exchange Management

The Company has established guidelines whereby currency swap agreements and foreign exchange forward contracts are used to manage risks associated with fluctuations in exchange rates related to its US dollars denominated long-term debt and its purchases of programming content and home terminal equipment denominated in US dollars. All such agreements and contracts are exclusively used for hedging purposes. In order to minimize the risk of counter-party default, COGECO completes transactions with financial institutions that carry a credit rating equal or superior to A+.

Cogeco Cable has entered into cross-currency swap agreements to fix the liability for interest and principal payments on its US$150 million Senior Secured Notes. These agreements have the effect of converting the US interest coupon rate of 6.83% per annum to an average Canadian dollar fixed interest

rate of 7.254% per annum. The exchange rate applicable to the principal portion of the debt has been fixed at CDN$1.5910.

Cogeco Cable has entered into foreign exchange forward contracts to hedge a portion of anticipated purchases in US dollars. At August 31, 2003, forward contracts had a nominal value of US$13.3 million and mature at different dates until August 16, 2004.

Commitments

The table below summarizes COGECO and its subsidiaries' contractual obligations as of August 31, 2003. In addition to the amounts disclosed in the table, TQS is committed to pay an amount of $26.8 million over a 5 year period, mainly for independent production according to its licence conditions. Also, according to its radio licences conditions, CRTI is committed to contribute for the benefit of Canadian artists, an amount of $1.9 million over a 7 year period.

(7) Fiscal 2004 Financial Guidelines

Cable Sector

Effective marketing and customer service combined with the continued success of bundling services should further improve customer retention and make cable services a more competitive offering as a whole. However, the strength of the competition in the regions served by Cogeco Cable could partly compromise the attainment of this objective. Based on the current competitive environment, the cable sector anticipates basic service customer losses of 11,000 to 13,000; this is less than the 15,711 loss in fiscal 2003. Based on current demand, Cogeco Cable forecasts that it will add 35,000 to 40,000 HSI customers and 33,000 to 38,000 digital terminals by August 31, 2004.

The cable sector expects to achieve revenue growth between 5% and 6%. About half of the growth should stem from rate increases implemented last January and during the fourth quarter of fiscal 2003. Increased penetration of HSI services and other services should contribute the balance of the rise in revenue. Operating costs, including management fees, are expected to increase by a moderate 3% to 4% as tight cost controls and improvements in processes will continue. For example, IP transport costs are expected to remain flat despite an anticipated 18% expansion of the HSI customer base. Cogeco Cable should further benefit from savings achieved through various contract renegotiations. Operating Income should grow by 8% to 10% as a result of the above forecasts resulting in a margin between 39% and 40%.

Cogeco Cable forecasts that depreciation of fixed assets and amortization of deferred charges will increase by 8%. The rate of growth in depreciation and amortization is foreseen to decline, as the level of capital expenditures and deferred charges continues to remain stable or be reduced. Expected Cash Flow of $132 million to $137 million should finance the capital expenditures and deferred charges program of $117 million. See section on "Investing Activities" for a discussion on these guidelines. As a result, the cable sector plans to generate Free Cash Flow of $15 million to $20 million arising essentially from Operating Income growth.

Media Sector

The media sector expects to achieve revenue growth between 10% and 13%. The growth should stem mainly from an improvement in the Fall programming schedule of TQS and from advertising rate increases related to a stronger advertising market. An Operating Income margin between 12% and 13% should be achieved. Management expects that depreciation and amortization should be flat and that capital expenditures should be about $6 million.

Consolidated Financial Guidelines

Free Cash Flow generated by both the cable and media sectors should be applied to reduce Indebtedness while improving the Company's leverage ratios. See section on "Capital Structure" for leverage ratios guidelines. Net income of about $10 million should be realized given Operating Income growth outpacing fixed charges increases.

(in thousands of dollars)

Years ended August 31,	2004	2005	2006	2007	2008	Thereafter	Total
Commitments							
Long-term debt (1)	$ 1,476	$ 1,476	$ 35,078	$ 220,002	$ —	$ 563,650	$ 821,682
Broadcasting rights	27,524	1,969	1,210	—	—	—	30,703
Capital leases (2)	916	607	301	109	—	—	1,933
Operating leases and others	23,107	18,994	17,512	15,271	14,312	21,613	110,809

(1) Includes principal repayments and the impact of cross-currency swap agreements but excludes capital leases.
(2) Includes principal repayments and financial expense.

(8) Accounting Policies

Non-GAAP Measures

The following measures are commonly used in the telecommunications and media industry for comparison purposes and to assess the financial performance of the ongoing business. These measures are not defined terms under GAAP.

Measure	Definition
ARPU	Average monthly revenue per basic service customer is computed on the basis of annual revenue divided by average basic service customers during the year divided by twelve.
Operating Income	Operating income before depreciation and amortization and unusual items.
Cash Flow	Cash flow from operating activities before changes in non-cash working capital items and unusual item.
Free Cash Flow	Free Cash Flow is defined as Cash Flow less capital expenditures (including assets acquired under capital leases) and increase in deferred charges.
Indebtedness	The sum of bank indebtedness, long-term debt and deferred credit net of cash and cash equivalents. The deferred credit represents the amount payable under cross-currency swaps entered into by Cogeco Cable to hedge US dollars denominated long-term debt.

Adoption of New Accounting Standards in Fiscal 2003

Disclosure of guarantees

In February 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 14 ("AcG-14"), *Disclosure of Guarantees*, which requires a guarantor to disclose the significant details of guarantees that have been given. Information required under AcG-14 is presented in note 18 on page 42.

Adoption of New Accounting Standards in Fiscal 2004

Hedging relationships

In December 2001, the CICA issued AcG-13, *Hedging relationships*, which establishes the criteria for identification, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The Emerging Issues Committee also issued in June 2002 EIC-28, *Accounting for trading speculative or non-hedging derivative financial instruments*. This EIC establishes that a derivative financial instrument that does not qualify for hedge accounting under AcG-13, should be recognized on the balance sheet at fair value, with changes in fair value recognized in net income. These new recommendations apply to financial instruments in effect in fiscal year beginning on or after July 1, 2003. Since the Company plans to comply with the requirements of AcG-13, the adoption of these new recommendations is not expected to have a material impact on the consolidated financial statements.

Impairment of long-lived assets

In December 2002, the CICA issued Handbook Section 3063, *Impairment of long-lived assets*, which modifies existing guidance on long-lived assets impairment measurements and establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets. The new standards require that an impairment loss be recognized when the carrying amount of an asset exceeds the sum of the undiscounted cash flows expected from this asset. These new recommendations are effective for fiscal year beginning on or after April 1, 2003. The Company expects that the adoption of these new recommendations will not have a material impact on the consolidated financial statements.

(9) Quarterly Information

Operating Results

2003

(in thousands of dollars, except per share data)

QUARTERS ENDED	Nov. 30	Feb. 28	May 31	Aug. 31	Total
Revenue	$ 151,512	$ 147,300	$ 156,126	$ 148,836	$ 603,774
Operating Income	50,169	46,497	53,484	52,947	203,097
Income before income taxes [1]	7,414	2,917	9,570	8,804	28,705
Net income from recurring operations	3,407	756	3,402	2,334	9,899
Net income	3,407	756	3,402	2,334	9,899
Cash Flow	33,170	29,967	36,690	37,620	137,447
Per Share Data [2]					
Net income from recurring operations					
– basic	$ 0.21	$ 0.05	$ 0.21	$ 0.14	$ 0.61
– diluted	0.21	0.05	0.21	0.14	0.61
Net income					
– basic	0.21	0.05	0.21	0.14	0.61
– diluted	0.21	0.05	0.21	0.14	0.61
Cash Flow					
– basic	2.04	1.84	2.26	2.31	8.46
– diluted	2.03	1.84	2.24	2.29	8.40

2002

QUARTERS ENDED	Nov. 30	Feb. 28	May 31	Aug. 31	Total
Revenue	$ 125,968	$ 123,729	$ 145,898	$ 136,403	$ 531,998
Operating Income	46,849	46,070	50,379	44,007	187,305
Income (loss) before income taxes [1]	4,723	40,380	9,816	(3,438)	51,481
Net income from recurring operations	4,053	2,445	3,963	1,152	11,613
Net income (loss)	2,710	36,452	3,747	(2,492)	40,417
Cash Flow	31,651	27,552	34,396	31,862	125,461
Per Share Data [2]					
Net income from recurring operations					
– basic	$ 0.25	$ 0.15	$ 0.24	$ 0.07	$ 0.72
– diluted	0.24	0.15	0.24	0.07	0.71
Net income (loss)					
– basic	0.17	2.24	0.23	(0.15)	2.49
– diluted	0.16	2.21	0.23	(0.15)	2.46
Cash Flow					
– basic	1.95	1.70	2.12	1.96	7.73
– diluted	1.92	1.67	2.09	1.95	7.63

(1) Income (loss) before income taxes, non-controlling interest and share in the results of an affiliated company.
(2) The addition of quarterly per share information may not correspond to the total given the fluctuation in the number of shares outstanding.

Trading Statistics

2003 (in dollars, except subordinate voting share volumes)

QUARTERS ENDED	Nov. 30	Feb. 28	May 31	Aug. 31	Total
The Toronto Stock Exchange					
High	**$ 12.50**	**$ 12.99**	**$ 16.79**	**$ 18.35**	
Low	**6.50**	**12.45**	**10.50**	**15.00**	
Close	**10.78**	**10.50**	**15.23**	**15.75**	
Volume (shares)	**1,336,540**	**1,620,661**	**1,639,043**	**765,576**	**5,361,820**

2002

QUARTERS ENDED	Nov. 30	Feb. 28	May 31	Aug. 31	Total
The Toronto Stock Exchange					
High	$ 24.75	$ 23.45	$ 20.75	$ 18.25	
Low	16.75	18.75	16.11	10.40	
Close	19.80	19.80	18.09	11.00	
Volume (shares)	2,149,071	1,263,734	1,811,257	1,091,060	6,315,122

Consolidated Financial Statements

Contents

Management's Responsibility

Related to Consolidated Financial Statements

The consolidated financial statements of COGECO Inc. and the financial information contained in this annual report are the responsibility of management. The financial statements include amounts determined by management based on estimates which in their opinion are reasonable and fair. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and have been approved by the Board of Directors. Operating and financial information used elsewhere in the annual report is consistent with that in the financial statements.

In fulfilling its responsibilities, management of COGECO Inc. and its subsidiaries have developed and continue to improve administrative and accounting systems in order to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that financial records are reliable for preparing the financial statements. The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, which reviews the annual consolidated financial statements of the Company and recommends their approval to the Board of Directors. The Committee periodically meets with management and the external auditors to discuss the results of the external and internal examinations and matters having an impact on financial information.

The external auditors appointed by the shareholders, Samson Bélair/Deloitte & Touche, Chartered Accountants, are responsible for making an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and to issue an opinion on the statements. The external auditors have free access to the Audit Committee, with or without the presence of management. Their report follows.

Louis Audet
President and Chief Executive Officer

Pierre Gagné
Vice-President, Finance and Chief Financial Officer

Auditors' Report

To the Shareholders of COGECO Inc.

We have audited the consolidated balance sheets of COGECO Inc. as at August 31, 2003 and 2002 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair
Deloitte & Touche.

Chartered accountants
Montreal, October 1, 2003

(in thousands of dollars, except per share data)

Consolidated Statements of Income

	2003	2002
Revenue	$ 603,774	$ 531,998
Operating costs	400,677	344,693
Operating income before depreciation and amortization	203,097	187,305
Depreciation and amortization *(note 3)*	111,616	98,263
Income before undernoted items	91,481	89,042
Unusual items *(note 4)*	—	(23,255)
Financial expense	62,776	60,816
Income before income taxes and the following items	28,705	51,481
Income taxes *(note 5)*	11,484	8,292
Non-controlling interest	7,026	2,903
Share in the results of a company subject to significant influence	296	(131)
Net income	$ 9,899	$ 40,417
Earnings per share *(note 14)*		
Basic	$ 0.61	$ 2.49
Diluted	0.61	2.46

YEARS ENDED AUGUST 31,

(in thousands of dollars)

Consolidated Statements of Retained Earnings

	2003	2002
Balance at beginning	$ 228,491	$ 191,487
Net income	9,899	40,417
Excess of price paid over the attributed value of subordinate voting shares redeemed	(74)	(3)
Dividends on multiple voting shares	(388)	(388)
Dividends on subordinate voting shares	(3,025)	(3,022)
Balance at end	$ 234,903	$ 228,491

(in thousands of dollars)

Consolidated Balance Sheets

	2003	2002
Assets		
Fixed assets *(note 7)*	$ 792,453	$ 782,981
Deferred charges *(note 8)*	41,057	39,653
Broadcasting licenses and customer base *(note 9)*	1,042,498	1,042,498
Goodwill	27,925	27,925
Broadcasting rights	29,996	18,620
Investments	460	756
Accounts receivable	63,533	64,296
Income tax receivable	40	6,183
Prepaid expenses	3,892	5,165
	$ 2,001,854	$ 1,988,077
Liabilities and Shareholders' equity		
Liabilities		
Bank indebtedness *(note 10)*	$ 3,035	$ 4,644
Long-term debt *(note 11)*	792,640	840,198
Deferred credit *(note 12)*	30,795	4,830
Pension plan liabilities and accrued employees benefits	7,311	6,278
Accounts payable and accrued liabilities	149,870	131,968
Deferred and prepaid income	15,452	17,852
Future income tax liabilities *(note 5)*	172,613	166,194
Non-controlling interest	480,122	473,080
	1,651,838	1,645,044
Shareholders' equity		
Capital stock *(note 13)*	115,113	114,542
Retained earnings	234,903	228,491
	350,016	343,033
	$ 2,001,854	$ 1,988,077

On behalf of the Board of Directors,

Maurice Myrand
Director

Pierre Robitaille
Director

(in thousands of dollars)

Consolidated Statements of Cash Flow

	2003	2002
Cash flow from operating activities		
Net income	$ **9,899**	$ 40,417
Unusual items net of related income taxes and non-controlling interest	**—**	(28,804)
Net income from recurring operations	**9,899**	11,613
Items not affecting cash and cash equivalents		
Depreciation and amortization *(note 3)*	**111,616**	98,263
Amortization of long-term financing costs	**1,658**	1,986
Future income taxes *(note 5)*	**6,419**	4,370
Future income taxes related to unusual items	**—**	3,480
Non-controlling interest	**7,026**	2,903
Portion of unusual items attributable to non-controlling interest	**—**	2,069
Other	**829**	777
Cash flow from operating activities before undernoted items	**137,447**	125,461
Unusual item	**—**	(4,925)
Changes in non-cash working capital items *(note 16a))*	**12,805**	15,907
	150,252	136,443
Cash flow from investing activities		
Acquisition of fixed assets *(note 16b))*	**(106,405)**	(126,258)
Increase in deferred charges	**(17,118)**	(29,031)
Acquisition of investments	**—**	(3,385)
Business acquisitions *(note 2)*	**—**	(66,571)
Other	**87**	463
	(123,436)	(224,782)
Cash flow from financing activities		
Increase (decrease) in bank indebtedness	**(1,609)**	4,644
Increase in long-term debt	**—**	417,919
Repayment of long-term debt	**(22,307)**	(405,721)
Issue of subordinate voting shares	**661**	210
Purchase of subordinate voting shares for cancellation	**(164)**	(6)
Dividends on multiple voting shares	**(388)**	(388)
Dividends on subordinate voting shares	**(3,025)**	(3,022)
Issue of subordinate voting shares by a subsidiary to non-controlling interest, net of issue costs	**134**	132
Purchase of subordinate voting shares for cancellation by a subsidiary	**(118)**	—
Contribution from non-controlling interest of a subsidiary	**—**	72,416
	(26,816)	86,184
Net change in cash and cash equivalents	**—**	(2,155)
Cash and cash equivalents at beginning	**—**	2,155
Cash and cash equivalents at end	$ **—**	$ —

See supplemental cash flow information in note 16

Notes to Consolidated Financial State

1 Significant accounting policies

Nature of operations

COGECO Inc. (the "Company") is a Canadian public company whose shares are listed on the Toronto Stock Exchange. The Company is engaged in cable television services and high-speed Internet access through Cogeco Cable Inc. and in radio and television broadcasting through Cogeco Radio-Television Inc.

Consolidation principles

The consolidated financial statements include the accounts of the Company and its subsidiaries. Business acquisitions are accounted for under the purchase method and operating results are included in the consolidated financial statements as of the date of the acquisition of control. Other investments are recorded at cost, except for an investment of 32% in a general partnership, Canal Indigo, and an investment of 37.3% in Stornoway Communications Limited Partnership, by Cogeco Radio-Television Inc., which are accounted for under the equity method. In August 2003, Cogeco Radio-Television Inc. sold its participation in Stornoway Communications Limited Partnership.

Business segments and percentage in interest of the main subsidiaries are as follows:

Segment	Principal subsidiary	Percentage of interest	Voting rights
Cable	Cogeco Cable Inc.	39.3%	86.6%
Media	Cogeco Radio-Television Inc.	100.0%	100.0%

Revenue recognition

The Company earns revenue from several sources. The recognition of revenue from the principal sources is as follows:

- Revenue from cable television and related services, and from high-speed Internet access services are recognized when services are provided;
- Revenue generated from sales of equipment with or without programming credits, which are accounted for as a deduction of revenue when allowed, are accounted for as a deduction of equipment subsidies;
- Revenue generated from payments to television network affiliates are recognized on a straight-line basis over the term of the agreement;
- Advertising revenue is recognized when aired.

Amounts received or invoiced that do not comply with these criteria are accounted as deferred and prepaid income.

Fixed assets

Fixed assets are recorded at cost. During construction of new assets, direct costs plus a portion of overhead costs are capitalized. Depreciation is provided on a straight-line method over the estimated useful lives on the following periods:

Buildings	20 to 40 years
Cable systems	5 to 15 years
Broadcasting and production equipment	5 to 20 years
Decoders, modems and customer's premises devices	7 years
Rolling stock under capital leases	5 years
Other equipment	5 years
Other	2 to 10 years

The Company reviews fixed assets for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset.

1 Significant accounting policies (continued)

Deferred charges
Deferred charges include new services launch costs, equipment subsidies and other costs incurred in order to expand customer base and financing costs. New services launch costs and financing costs are amortized using the straight-line method, over a period not exceeding five years. Equipment subsidies and other costs incurred in order to expand the customer base are amortized over a period of four years.

Broadcasting licences and customer base
The broadcasting licenses represent the value attributed to broadcasting licences upon acquisition of broadcasting stations. The customer base represents the difference between price paid and the fair value attributed to tangible and intangible assets upon acquisition of cable systems. Broadcasting licenses and customer base are considered to have a deemed indefinite life and consequently are not amortized, but tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment.

Goodwill
Goodwill represents the difference between price paid and the fair value attributed to tangible and intangible assets upon acquisition of broadcasting stations. Goodwill resulting from the acquisition of businesses is not amortized but tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment.

Broadcasting rights
Broadcasting rights are contractual rights allowing limited broadcast of televisual products or movies, generally on a pre-determined period. These broadcasting rights and their related liabilities are recorded at the time the agreement comes into effect and the product is ready for broadcast.

These rights are amortized upon broadcast based on the cost of televisual product or movie, using an amortization method based on future expected revenues. The value of broadcasting rights is reduced when impairment in value is recognized.

Income taxes
Income taxes are accounted for under the asset and liability method. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Stock-based compensation plans
The Company accounts for stock-based compensation by measuring compensation cost for employee stock options as the excess, if any, of the quoted market price of the subordinate voting shares at the date of grant over the amount an employee must pay to acquire these shares, and includes in its financial statements pro forma disclosures of net income and earnings per share as if the fair value method of accounting had been applied. Any consideration paid by employees on exercise of stock options is credited to capital stock. The supplementary information required is presented in note 13.

Barter transactions
In the normal course of its business, the Company's subsidiary, Cogeco Radio-Television Inc., enters into barter transactions under which goods and services are acquired in exchange for advertising. These goods and services, which would be otherwise payable in cash, are accounted for at their fair market value.

1 Significant accounting policies (continued)

Employee future benefits

Pension costs are determined using actuarial methods and are funded through contributions determined in accordance with the projected benefit method prorated on service. Pension expense is charged to operations and includes:

- the cost of pension benefits provided in exchange for employees' services rendered during the year;
- the amortization of prior service costs and amendments over the expected average remaining service life of the active employee group covered by the plans; and
- the interest cost of pension obligations, the return on pension fund assets, and the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the benefit obligation or fair value of plan assets over the expected average remaining service life of the active employee group covered by the plans.

Derivative financial instruments

The Company's subsidiary, Cogeco Cable Inc., uses currency swap agreements and foreign exchange forward contracts as derivative financial instruments to manage risks from fluctuations in exchange rates related to its long-term debt and accounts payable. The Company accounts for the financial instruments, under the accrual method, as hedges and, accordingly, the carrying value of the financial instruments are not adjusted to reflect their current market value. The Company does not hold or use any derivative instruments for speculative trading purposes. Net receipts or payments arising from currency swap agreements are recognized as financial expense.

Foreign currency translation

Assets and liabilities denominated in foreign currency are translated in Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at the transaction date for non-monetary items. Income and expenses are translated at average rates prevailing during the period except for transactions being hedged which are translated using the terms of the hedges. Amounts payable or receivable on currency derivatives, all of which are used to hedge foreign currency debt obligations and anticipated transactions are recorded concurrently with the unrealized gains and losses on the obligations being hedged. Other gains and losses are included in net income. During fiscal year 2003, the Company's subsidiary, Cogeco Cable Inc., realized a foreign exchange gain amounting to $643,000 ($86,000 in 2002).

Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments which have an original maturity of three months or less.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities and the revenues and expenses during the reporting year. Actual results could differ from these estimates.

Recent accounting pronouncement

Disclosure of guarantees

In February 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 14 ("AcG-14"), Disclosure of Guarantees, which provides assistance regarding the identification of guarantees and requires a guarantor to disclose the significant details of guarantees that have been given. A guarantee is a contract or an indemnification agreement that contingently requires the Company to make payments based on changes in an underlying, related to an asset, a liability or an equity security of the guaranteed party or based on a third party failure to perform under an obligating agreement. It could be also an indirect guarantee of the indebtedness of another party. Disclosure required under AcG-14 is presented in note 18.

2 Business acquisitions

On February 15, 2002, the Company's subsidiary, Cogeco Radio-Television Inc., completed the acquisition of an 86% interest in television network TQS Inc., in partnership with Bell Globemedia, to increase their ownership to 99%. Cogeco Radio-Television Inc. contributed its television assets and its 12.9% interest in TQS Inc. while Bell Globemedia contributed cash of $72,416,000. Subsequently, Cogeco Radio-Television Inc. acquired the remaining 1.1% interest from non-controlling shareholders. As a result of these transactions, Cogeco Radio-Television Inc. owns a 60% indirect interest in TQS Inc.

The net assets acquired and consideration paid for these transactions are as follows:

Assets acquired	
Fixed assets	$ 13,348
Deferred charges	305
Broadcasting licenses	23,366
Goodwill	27,925
Broadcasting rights	22,911
Investments	201
Future income taxes	5,915
	93,971
Assumed liabilities	
Bank indebtedness	2,193
Working capital deficiency	6,550
Long-term debt	12,452
Pension plan liabilities and accrued employees benefits	1,604
	22,799
Net assets acquired	71,172
Investment previously accounted for	(6,794)
Paid in cash	$ 64,378

3 Depreciation and amortization

	2003	2002
Fixed assets	$ 96,678	$ 87,673
Deferred charges	14,938	10,590
	$ 111,616	$ 98,263

4 Unusual items

	2003	2002
Gain on dilution resulting from shares issued by a subsidiary	$ —	$ (34,443)
Charges related to staffing reduction programs of subsidiaries	—	5,517
Write-off of an investment	—	5,671
	$ —	$ (23,255)

During fiscal year 2002, the Company realized a dilution gain of $34,443,000 resulting from the issuance of common shares by a subsidiary of Cogeco Radio-Television Inc. in connection with the acquisition of TQS Inc. (note 2).

Also in 2002, the Company's subsidiary, Cogeco Cable Inc., completed a staff reduction program and as a result, a charge of $4,925,000 has been recorded for the payment of employee severances.

Finally in 2002, the Company's subsidiary, Cogeco Radio-Television Inc., has written-off its investment of $5,671,000 in Stornoway Communications Limited Partnership as well as incurred restructuring charges, made up of employee severances, related to the production service of TQS Inc. amounting to $592,000.

5 Income taxes

	2003	2002
Current	$ 5,065	$ 3,922
Future	6,419	4,370
	$ 11,484	$ 8,292

The following table provides the reconciliation between statutory federal and provincial income taxes and effective consolidated income tax rate:

	2003	2002
Income taxes at combined income rate of 35.2% (36.4% in 2002)	$ 10,007	$ 18,752
Income subject to lower tax rates	(940)	(1,468)
Reduction in income taxes as a result of changes in substantially enacted tax rates	—	(406)
Non-taxable dilution gain	—	(12,341)
Large corporation tax	4,202	3,614
Other	(1,785)	141
Income taxes at effective income tax rate	$ 11,484	$ 8,292

The income tax effect of temporary differences that give rise to significant portion of future income tax assets and liabilities are as follows:

	2003	2002
Future income tax assets		
Non-capital loss carryforwards	$ 68,500	$ 61,638
Other	6,673	7,001
	75,173	68,639
Valuation allowance	(5,581)	(5,435)
Total future income tax assets	69,592	63,204
Future income tax liabilities		
Fixed assets	79,262	68,578
Deferred charges	11,197	11,820
Broadcasting licenses and customer base	151,690	149,000
Other	56	—
Total future income tax liabilities	242,205	229,398
Net future income tax liabilities	$ 172,613	$ 166,194

As at August 31, 2003, the Company's subsidiaries had accumulated income tax losses amounting to approximatively $204,600,000, the benefits of which have been partly recognized in these financial statements. These losses expire as follows:

2004	2005	2006	2007	2008	2009	2010
$ 7,300	$ 23,200	$ 48,200	$ 15,700	$ 48,300	$ 40,600	$ 21,300

6 Segmented information

The Company's activities are divided into two business segments: Cable and Media. The Cable segment is comprised of all cable and high-speed Internet access operations, and the Media segment is comprised of radio and television operations.

The principal financial information per business segment is presented in the table below:

	Cable		Media		Head Office and elimination		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
Revenue	**$ 479,293**	$ 447,984	**$ 124,481**	$ 84,014	**$ —**	$ —	**$ 603,774**	$ 531,998
Operating costs	**295,949**	279,638	**106,616**	67,261	**(1,888)**	(2,206)	**400,677**	344,693
Operating income before depreciation and amortization	**183,344**	168,346	**17,865**	16,753	**1,888**	2,206	**203,097**	187,305
Depreciation and amortization	**107,158**	95,073	**4,271**	3,038	**187**	152	**111,616**	98,263
Income before other items	**76,186**	73,273	**13,594**	13,715	**1,701**	2,054	**91,481**	89,042
Unusual items (gain)	**—**	4,925	**—**	(28,180)	**—**	—	**—**	(23,255)
Financial expense	**61,113**	59,645	**414**	1,958	**1,249**	(787)	**62,776**	60,816
Income taxes	**7,194**	4,915	**3,217**	1,444	**1,073**	1,933	**11,484**	8,292
Net assets employed [1]	**$ 1,705,747**	$ 1,715,378	**$ 125,495**	$ 118,512	**$ 5,290**	$ 4,367	**$ 1,836,532**	$ 1,838,257
Total assets	**1,830,517**	1,830,282	**164,388**	153,008	**6,949**	4,787	**2,001,854**	1,988,077
Goodwill	**—**	—	**27,925**	27,925	**—**	—	**27,925**	27,925
Acquisition of fixed assets	**100,385**	121,323	**6,251**	4,935	**(231)**	—	**106,405**	126,258

(1) Total assets less cash and cash equivalents, accounts payable and accrued liabilities and deferred and prepaid income.

7 Fixed assets

	2003	2002
Cost		
Land	**$ 3,936**	$ 3,959
Buildings	**39,882**	35,074
Cable systems	**984,688**	913,193
Broadcasting and production equipment	**66,705**	78,342
Decoders, modems and customer's premises devices	**79,727**	76,849
Rolling stock under capital leases	**4,520**	4,607
Other equipment	**86,976**	83,460
Other	**12,538**	10,210
	1,278,972	1,205,694
Accumulated depreciation		
Buildings	**8,509**	7,284
Cable systems	**355,813**	307,282
Broadcasting and production equipment	**31,412**	37,526
Decoders, modems and customer's premises devices	**32,860**	24,110
Rolling stock under capital leases	**3,421**	2,584
Other equipment	**48,306**	37,166
Other	**6,198**	6,761
	486,519	422,713
	$ 792,453	$ 782,981

8 Deferred charges, net of amortization

	2003	2002
New services launch costs	$ 7,669	$ 14,263
Equipment subsidies and other costs	26,389	18,530
Financing costs	3,838	5,496
Other	3,161	1,364
	$ 41,057	$ 39,653

9 Broadcasting licenses and customer base

	2003	2002
Cost		
Broadcasting licences	$ 60,643	$ 60,643
Customer base	1,040,644	1,040,644
	1,101,287	1,101,287
Accumulated amortization		
Broadcasting licences	7,917	7,917
Customer base	50,872	50,872
	58,789	58,789
	$ 1,042,498	$ 1,042,498

At August 31, 2003, the Company and its subsidiary's, Cogeco Radio-Television Inc., tested the value of their broadcasting licences for impairment and concluded that no impairment existed.

At August 31, 2003 and 2002, the Company's subsidiary, Cogeco Cable Inc., tested the value of customer base for impairment and concluded that no impairment existed as at these dates.

10 Bank indebtedness

The available line of credit of the Company amounts to $5,000,000 of which $1,132,000 was used at August 31, 2003 ($1,925,000 in 2002). This line of credit requires commitment fees and bears interest at bank prime rate plus 1.00%. At August 31, 2003, the interest rate on bank indebtedness is 5.75%. This line of credit is secured on the same basis as the Term Facility (note 11 a)).

The operating line of credit available to Cogeco Cable Inc. amounts to $25,000,000, of which $1,115,000 was used at August 31, 2003 ($659,000 in 2002). This line of credit is revised periodically, does not require commitment fees and bears interest at bank prime rate plus 0.25%. At August 31, 2003, the interest rate on bank indebtedness is 5.00%. This line of credit is secured on the same basis as the Term Facility (note 11 b)).

The operating line of credit available to the indirect subsidiary of the Company, TQS Inc., has been increased from $5,000,000 to $10,000,000 in 2003, of which $407,000 was used at August 31, 2003 ($383,000 in 2002). This line of credit, in the form of term credit provided by a financial institution, is reviewed periodically and bears interest at bank prime rate plus 2.00%. At August 31, 2003, the interest rate on bank indebtedness is 6.75%. The term credit is secured by a first-ranking fixed and floating charge for an amount of $12,000,000 on the assets of TQS Inc. and its subsidiaries. According to the terms of the credit, TQS Inc. has agreed to maintain certain financial ratios with respect to its accounts receivable and its shareholders' equity. This term credit is renewable on an annual basis.

11 Long-term debt

	Maturity	Interest rate	2003	2002
Parent company				
Term Facility	2006	4.91 % (1)	**$ 18,500**	$ 19,000
Subsidiaries				
Term Facility	2007	4.48 (1)	**110,000**	129,000
Senior Secured Debentures Series 1	2009	6.75	**150,000**	150,000
Senior Secured Notes				
Series A – US $150 million	2008	6.83	**207,855**	233,820
Series B	2011	7.73	**175,000**	175,000
Second Secured Debentures Series A	2007	8.44	**125,000**	125,000
Obligations under capital leases	2007	6.58 – 9.53	**1,753**	2,407
Preferred shares (2)	2006	—	**4,320**	5,720
Other	—	—	**212**	251
			$ 792,640	$ 840,198

(1) Average interest rate as of August 31, 2003, including stamping fees.
(2) 4,320,000 preferred shares 5.5% cumulative dividend, redeemable and retractable to a maximum of $1,400,000 annually.

Interest on long-term debt amounted to $56,923,000 ($54,780,000 in 2002).

a) The Term Facility and the operating line of credit are secured by a first fixed and floating charge on certain assets of the Company and certain of its subsidiaries except for permitted encumbrances, including funded obligations subject to a maximum amount. The provisions under these facilities provide for restrictions on the operations and activities of the Company. Generally, the most significant restrictions are related to permitted investments, dividends on multiple and subordinate voting shares as well as incurrence and maintenance of certain financial ratios primarily linked to financial expense, total indebtedness and shareholders' equity.

The Term Facility of $40,000,000, provided by a syndicate of financial institutions, can be extended for an additional year at each anniversary date of the facility, subject to lenders' approval. If the approval is not obtained, the Term Facility is convertible in a 2-year Term Facility. In 2003, the Term Facility has been extended for an additional year. The Term Facility requires commitment fees and interest rates are based, at the Company's option, on bankers' acceptance or bank prime rates.

b) The Company's subsidiary, Cogeco Cable Inc.'s Term Facility which has a committed amount of $400,000,000 is repayable at any time without penalty but no later than January 31, 2007, and will be reduced to $270,000,000 as at January 31, 2005 and $95,000,000 as at January 31, 2006. The Term Facility requires commitment fees, and interest rates are based, at Cogeco Cable Inc.'s option, on bankers' acceptance or bank prime rates.

Cogeco Cable Inc.'s Term Facility and the operating line of credit described in note 10 are secured by a first fixed and floating charge on the assets of Cogeco Cable Inc. and certain of its subsidiaries except for permitted encumbrances, including purchase money obligations, existing funded obligations and charges granted by any subsidiary prior to the date when it becomes a subsidiary subject to a maximum amount in proportion to consolidated assets. The provisions under these facilities provide for restrictions on the operations and activities of Cogeco Cable Inc. Generally, the most significant restrictions relate to permitted investments, dividends on common shares, and reimbursement of long-term debt as well as incurrence and maintenance of certain financial ratios primarily linked to the operating income before depreciation and amortization, financial expense, fixed charges and total indebtedness. Cogeco Cable's credit facilities are not guaranteed by COGECO Inc.

c) The Senior Secured Debentures Series 1 are redeemable at the Company's subsidiary, Cogeco Cable Inc.'s option, in whole or in part, at the greater of par value or the Canada bond yield plus 0.3%. These debentures mature on June 4, 2009 and bears interest at 6.75% per annum, payable semi-annually. These debentures are indirectly secured by a first fixed and floating charge and a security interest on all assets of Cogeco Cable Inc. and certain of its subsidiaries.

d) The Senior Secured Notes are senior secured obligations and rank equally and rateably with all existing and future senior indebtedness. These notes are indirectly secured by a first fixed and floating charge and a security interest on all assets of the Company and certain of its subsidiaries. The notes are redeemable at the Company's subsidiary Cogeco Cable Inc.'s option at any time, in whole or in part, prior to maturity at 100% of the principal amount plus a make-whole premium. The Series A mature on October 31, 2008 and the Series B mature on October 31, 2011. The Senior Secured Notes Series B have an interest coupon rate of 7.73% per annum, payable semi-annually. On November 1, 2001, the Company's subsidiary, Cogeco Cable Inc., entered into cross-currency swap agreements to fix the liability for interest and principal payments on US $150,000,000 of its Senior Notes Series A which have an interest coupon rate of 6.83% per annum, payable semi-annually. These agreements have resulted in an effective interest rate of 7.254% on the Canadian dollar equivalent of the US debt. The exchange rate applicable to the principal portion of the debt has been fixed at CDN $1.5910.

11 Long-term debt (continued)

e) The Second Secured Debentures Series A are redeemable at the Company's subsidiary, Cogeco Cable Inc.'s option in whole or in part, at the greater of par value or Canada bond yield plus 0.5%. These debentures mature on July 31, 2007, and bears interest at 8.44% per annum, payable semi-annually. These debentures are secured by second fixed charges on certain assets and floating charges on all assets of Cogeco Cable Inc. and certain of its subsidiaries.

f) Principal repayments due on long-term debt for the next five years, excluding those under capital leases and presuming the term facility will be extended annually, are as follows:

2004	2005	2006	2007	2008
$ 1,476	$ 1,476	$ 35,078	$ 220,002	$ —

g) Minimum payments due under capital leases total $1,933,000 of which $180,000 represents financial expense, and are as follows:

2004	2005	2006	2007	2008
$ 916	$ 607	$ 301	$ 109	$ —

12 Deferred credit

The deferred credit represents the amount which would have been payable at August 31, 2003 under cross-currency swaps entered into by the Company's subsidiary, Cogeco Cable Inc., to hedge Senior Secured Notes Series A denominated in US dollars (see note 11 d)).

13 Capital stock

Authorized

Unlimited number of:

Preferred shares of first and second rank, issuable in series and non-voting, except when specified in the Articles of Incorporation of the Company or in the Law.

Multiple voting shares, 20 votes per share

Subordinate voting shares, 1 vote per share

Issued	**2003**	2002
1,849,900 multiple voting shares	**$ 12**	$ 12
14,465,777 subordinate voting shares (14,406,253 in 2002)	**115,101**	114,530
	$ 115,113	$ 114,542

During the year, subordinate voting share transactions were as follows:

	2003		2002	
	Number of shares	**Amount**	Number of shares	Amount
Balance at beginning	**14,406,253**	**$ 114,530**	14,385,113	$ 114,323
Shares issued for cash under the Employee Stock Purchase Plan and the Stock Option Plan	**70,824**	**661**	21,440	210
Purchase of shares for cancellation	**(11,300)**	**(90)**	(300)	(3)
Balance at end	**14,465,777**	**$ 115,101**	14,406,253	$ 114,530

During fiscal year 2003, the Company issued 2,724 shares (7,440 shares in 2002) pursuant to its Employee Stock Purchase Plan for a cash consideration of $26,000 ($136,000 in 2002) and issued 68,100 shares (14,000 shares in 2002) pursuant to its Employee Stock Option Plan for a cash consideration of $635,000 ($74,000 in 2002). Also, pursuant to a normal course issuer bid, the Company purchased for cancellation 11,300 subordinate voting shares (300 shares in 2002) for a cash consideration of $164,000 ($6,000 in 2002). The excess of the purchase price over the book value of purchased shares reduced retained earnings by $74,000 ($3,000 in 2002).

13 Capital stock (continued)

Stock-based plans

The Company established, for the benefit of its employees and those of certain of its subsidiaries, an Employee Stock Purchase Plan and a Stock Option Plan for certain executives. Under these plans, no more than 10% of the outstanding subordinate voting shares are available.

Stock Purchase Plan

The Employee Stock Purchase Plan is accessible to all employees up to a maximum of 5% of their annual salary. The subscription date is December 31 and the subscription price is based on the average market price of the shares of the last five business days of November less 10%. A maximum of 270,000 shares are available, up to 40,000 annually, under this plan.

Stock Option Plan

A total of 1,275,700 subordinate voting shares are reserved for the purpose of the Stock Option Plan. The minimum purchase price at which options are granted is not less than the market value of such shares at the time the option is granted. Granted options vest 20% per year beginning the day such options are granted and are exercisable over 10 years.

Under the Stock Option Plan, the following options were granted by the Company and are outstanding as at August 31:

		2003		2002
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	**635,576**	**$ 14.45**	572,972	$ 13.28
Granted	**—**	**—**	80,104	20.95
Exercised	**(68,100)**	**9.32**	(14,000)	5.26
Forfeited	**—**	**—**	(3,500)	8.07
Outstanding, end of year	**567,476**	**$ 15.06**	635,576	$ 14.45
Exercisable, end of year	**487,611**	**$ 13.49**	496,135	$ 12.00

As at August 31, 2003, the range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life of options are as follows:

		Options outstanding			Options exercisable
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 6.50 to $ 8.375	133,600	2.54	$ 6.80	133,600	$ 6.80
9.68 to 14.00	239,000	4.12	11.68	239,000	11.68
20.95 to 21.40	150,633	7.23	21.16	88,465	21.24
37.50	44,243	7.17	37.50	26,546	37.50
	567,476	4.81	$ 15.06	487,611	$ 13.49

13 Capital stock (continued)

During fiscal year 2003, no stock options have been granted to employees. During fiscal year 2002, the Company granted 80,104 stock options with an exercise price of $20.95. As permitted by CICA Handbook section 3870, the Company does not record any compensation expense for options granted to employees. If compensation cost had been recognized using the fair value-based method at the grant date, the Company's net income and earnings per share for the years ended August 31, 2003 and 2002 would have been reduced to the following pro forma amounts:

	2003	2002
Net income		
As reported	**$ 9,899**	$ 40,417
Pro forma	**9,575**	40,110
Basic earnings per share		
As reported	**$ 0.61**	$ 2.49
Pro forma	**0.59**	2.47
Diluted earnings per share		
As reported	**$ 0.61**	$ 2.46
Pro forma	**0.59**	2.44

Since the method of accounting under CICA Handbook Section 3870 has not been applied to options granted prior to September 1, 2001, the pro forma compensation cost may not be representative of compensation cost to be expected in future years.

The fair value of each option granted in 2002 was estimated on the grant date for purposes of the pro forma disclosures using the Binomial option pricing model based on the following assumptions:

Expected dividend yield	1.25 %
Expected volatility	40 %
Risk-free interest rate	4.63 %
Expected life in years	5.4

The fair value of stock options granted for the year ended August 31, 2002 was $8.40 per option.

For the purpose of pro forma disclosures, stock-based compensation is amortized to expense on a straight-line basis over the vesting period, which is four years.

The Binomial option pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option pricing models require the use of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can have a material effect on the fair value estimate, in management's opinion, the existing option pricing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

TQS Inc., an indirect subsidiary of the Company, adopted in May 2002 a stock option plan for certain officers and key employees. The Company's subsidiary participating and non-voting common shares are subject to this plan. The maximum number of shares that can be issued under this plan is 10% of TQS Inc.'s voting and non-voting common shares issued and outstanding as of the date of grant of the options. The plan provides for the granting by the Board of Directors of TQS Inc. to the participants of options, at each evaluation date or any other date determined by the Board of Directors. The plan also provides for the granting by the Board of Directors to the participants of right to receive the increased value of the shares ("the appreciation rights"), jointly with the options being granted. In such a case, an appreciation right is not separable from the option with which it was granted such that when a participant decides to exercise its appreciation rights, he consequently renounces the corresponding stock options. The purchase price at which options are granted is the market value as determined at the last date of evaluation of shares. The stock options vest 20% per year beginning one year after the day such stock options are granted and can be exercised during a period of ten years and six months following their granting date. The compensation cost related to the options granted is based on the fair value and is amortized on a declining basis method over a period of five years from the date of grant. An expense of $1,667,000 ($618,000 in 2002) has been recorded related to this plan.

13 Capital stock (continued)

Performance Unit Plan

The Company and its subsidiary, Cogeco Cable Inc., have also adopted a performance unit plan for key employees. The value of a performance unit granted is equal to the closing price of the subordinate shares of the Company and its subsidiary on the Toronto Stock Exchange on the trading day preceding the date of grant of the unit. The units credited to the participant's account will become vested to the participant on the third anniversary of the date of grant of the said performance units. The units will be redeemed only at the termination of the participant's employment or in case of retirement or death. Each unit credited gives the right to a Dividend Equivalent equal to the amount of dividend per share paid on the subordinate voting shares of the Company and its subsidiary. The Dividend equivalent is converted into additional units. The units do not confer on the participant the right to acquire shares or other securities of the Company and its subsidiary under any circumstances and the participant shall not, by holding units or otherwise, be considered a shareholder of the Company and its subsidiary nor have any rights to become a shareholder as a result. An amount of $369,000 ($241,000 in 2002) has been recorded as a reduction of expenses related to this plan.

14 Earnings per share

The following table provides a reconciliation between basic and diluted earnings per share:

	2003	2002
Net income	**$ 9,899**	$ 40,417
Weighted average number of multiple voting and subordinate voting shares outstanding	**16,254,656**	16,239,512
Effect of dilutive stock options	**99,436**	198,171
Weighted average number of diluted multiple voting and subordinate voting shares outstanding	**16,354,092**	16,437,683
Earnings per share		
Basic	**$ 0.61**	$ 2.49
Diluted	**0.61**	2.46

15 Financial instruments

Description of derivative financial instruments

Foreign exchange forward contracts

In June 2003, the Company's subsidiary, Cogeco Cable Inc., entered into foreign exchange forward contracts to hedge a portion of anticipated purchases in US dollars. At August 31, 2003, foreign exchange forward contracts have a nominal value of US $13,301,000 and expire at different dates until August 16, 2004. The exchange rate of these forward contracts is CDN $1.3873.

Fair value

The Company uses the following methods and assumptions to evaluate fair market value of financial instruments:

Accounts receivable, accounts payable and accrued liabilities

The carrying amount in the consolidated balance sheets approximates fair value because of the short-term nature of these instruments.

Long-term debt

a) Financial expense under the terms of the Company's Term Facilities are based upon banker's acceptance or bank prime rates. Therefore, carrying value is considered to represent fair market value for Terms Facilities.

b) The carrying values of obligations under capital leases and other items of the long-term debt approximate the fair value of these financial instruments due to their terms.

c) The fair value of the Senior Secured Debentures Series 1, Senior Secured Notes Series A and B, and Second Secured Debentures Series A, is based upon current trading values for similar financial instruments.

d) The fair value of the derivative financial instruments is based upon available information about the financial instruments and market conditions.

15 Financial instruments (continued)

The estimated fair values of long-term debt instruments and derivative instruments are as follows:

	2003		2002	
	Carrying amount	**Estimated fair value**	Carrying amount	Estimated fair value
Long-term debt	**$ 792,640**	**$ 781,314**	$ 840,198	$ 805,775
Derivative financial instruments – asset (liability) position	**(30,795)**	**(33,210)**	(4,830)	539

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Credit risks

The Company's credit risk arises from the possibility that counterparts to the foreign exchange forward contracts and the cross-currency swap agreements may default on their obligations. The Company reduces risks by completing transactions with financial institutions that carry a credit rating equal or superior to A+. In addition, since the Company has a large and diversified clientele, credit risk concentration from customers is minimal.

16 Statements of cash flow

a) Changes in non-cash working capital items

	2003	2002
Accounts receivable	**$ 1,263**	$ (20,422)
Income tax receivable	**6,143**	(6,183)
Broadcasting rights	**(11,376)**	(18,620)
Prepaid expenses	**1,273**	2,074
Accounts payable and accrued liabilities	**17,902**	43,101
Income tax liabilities	**—**	(843)
Deferred and prepaid income	**(2,400)**	439
Working capital related to business acquisitions	**—**	16,361
	$ 12,805	$ 15,907

b) Fixed assets

During the year, fixed assets acquisitions amounted to $107,119,000 ($127,040,000 in 2002), $714,000 ($782,000 in 2002) of which were acquired through capital leases. Disbursements for the purchase of fixed assets totalled $106,405,000 ($126,258,000 in 2002).

c) Other information

	2003	2002
Interest paid	**$ 60,447**	$ 49,860
Income taxes paid (recovered)	**(1,078)**	5,997

17 Employees future benefits

The Company and its subsidiaries offer to their employees contributory defined benefit pension plans, a defined contribution pension plan or a collective registered retirement savings plan. With respect to the last two plans, the Company and its subsidiaries' obligation is limited to the payment of the monthly employer's portion. Expenses related to these two plans amounted to $1,347,000 ($1,468,000 in 2002).

The defined benefit pension plans provide pensions based on the number of years of service and the average salary during the employment of each participant. In addition, the Company and its subsidiaries offer certain executives a supplementary pension plan.

The following table provides a reconciliation of the change in the plans' benefit obligations and fair value of plan assets and a statement of the funded status as at August 31:

	2003	2002
Change in accrued benefit obligation		
Accrued benefit obligation at beginning of year	**$ 21,593**	$ 16,251
Accrued benefit obligation on the acquisition of TQS Inc.	**—**	4,108
Service cost	**1,016**	798
Interest cost	**1,561**	1,321
Actuarial loss (gains) on obligation	**341**	(102)
Contributions by plan participants	**181**	173
Benefits paid	**(976)**	(956)
Accrued benefit obligation at end of year	**23,716**	21,593
Change in plan assets		
Fair value of plan assets at beginning of year	**13,028**	11,536
Fair value of plan assets on the acquisition of TQS Inc.	**—**	2,536
Actual return on plan assets	**542**	(513)
Contributions by plan participants	**181**	173
Employer contributions	**602**	252
Benefits paid	**(976)**	(956)
Fair value of plan assets at end of year	**13,377**	13,028
Funded Status		
Plans deficit	**10,339**	8,565
Net actuarial losses not recognized	**(4,398)**	(4,018)
Net accrued benefit liability	**$ 5,941**	$ 4,547

The net benefit expense includes the following components:

	2003	2002
Current cost	**$ 1,016**	$ 798
Interest cost	**1,561**	1,321
Expected return on plan assets	**(832)**	(801)
Amortization of net actuarial loss	**229**	163
Net periodic benefit cost	**$ 1,974**	$ 1,481

The significant weighted average assumptions used in measuring the Company's pension and other obligations are as follows:

	2003	2002
Discount rate	**6.50 %**	7.00 %
Expected rate of return on plan assets	**7.25 %**	7.25 %
Rate of compensation increase	**5.00 %**	5.00 %

18 Commitments and contingencies

Commitments

a) Lease agreements and other long term contracts

As at August 31, 2003, the Company and its subsidiaries are committed under lease agreements and other long term contracts to make annual payment as follows:

2004	2005	2006	2007	2008	2009 and thereafter
$ 23,107	$ 18,994	$ 17,512	$ 15,271	$ 14,312	$ 21,613

b) Broadcasting rights

The indirect subsidiary of the Company, TQS Inc., is committed to pay annual payments as follows in connection to its broadcasting rights agreements:

2004	2005	2006	2007	2008	2009 and thereafter
$ 27,524	$ 1,969	$ 1,210	$ —	$ —	$ —

c) Significant benefits and licenses conditions

Following the acquisition of the TQS Inc. television network, the indirect subsidiary of the Company, TQS Inc. is committed with the Canadian Radio-Television and Telecommunications Commission («CRTC») to contribute beginning September 1, 2002 an amount of $7.39 million over a period of six years within the Canadian television industry for independent production. Also, according to its licenses conditions, TQS Inc. is committed to contribute in independent production, minimum annual amounts of $4 million beginning September 1, 2001 and a total amount of $40 million over a period of seven years. As at August 31, 2003, the remaining amount to be contributed is $26,758,000.

Also, according to radio licenses conditions, Cogeco Radio-Television Inc. is committed to contribute for the benefit of Canadian artists minimum annual amounts of $150,000 beginning September 1, 2003 and $120,000 beginning September 1, 2004 for a total amount of $1,890,000 over a period of seven years. As at August 31, 2003, no amount has been contributed regarding these licenses conditions.

Contingencies

The Company and its subsidiaries are involved in matters involving litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to litigation to be material to these financial statements.

Disclosure of guarantees

In the normal course of business, the Company and its subsidiaries enter into agreements containing features that meet the criteria for a guarantee including the following:

Businesses and assets disposal

In connection with the sale of businesses or assets, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Company's subsidiaries, Cogeco Cable Inc. and Cogeco Radio-Television Inc. have agreed to indemnify the purchaser against claims related to events which occurred prior to the sale. The term and amount of such indemnification will sometimes be limited by the agreement. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability required to be paid to guaranteed parties. In management's opinion, the likelihood that a significant liability will be incurred under these obligations is low. As at August 31, 2003, no liability has been recorded associated with these indemnifications.

Long-term debt

Under the terms of the Senior Secured Notes and the Second Secured Debentures Series A, the Company's subsidiary, Cogeco Cable Inc., has agreed to indemnify the other parties against changes in regulation relative to withholding taxes. These indemnifications extend for the term of the related financings and do not provide any limit on the maximum potential liability. The nature of the indemnification agreement prevents the Company from estimating the maximum potential liability it could be required to pay. As at August 31, 2003, no liability has been recorded associated with these indemnifications.

18 Commitments and contingencies (continued)

Loan guarantee

The Company's subsidiary, Cogeco Radio-Television Inc., and its subsidiary TQS Inc. have guaranteed the credit facility of a general partnership, Canal Indigo, up to a maximum amount of $800,000. As at August 31, 2003, no liability has been recorded associated with this loan guarantee.

Moveable hypothecs

The Company's subsidiary, Cogeco Radio-Television Inc., has granted moveable hypothecs in favour of its lessors on broadcasting and production equipments for a value of $900,000.

Employees and contractuals indemnification agreements

The Company's subsidiary, Cogeco Radio-Television Inc., and its subsidiary TQS Inc. indemnify certain of its employees or contractuals, against charges, costs, and expenses as a result of any lawsuit, or any judicial or administrative proceeding in which these employees or contractuals are sued as a result of their service. The claims covered by such indemnification are subject to statutory or other legal limitation period. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements. The Company has purchased employees' and contractual's liability insurance with a deductible per loss. As at August 31, 2003, no liability has been recorded associated with these indemnifications.

19 Non-monetary operations

During fiscal year 2003, the Company's subsidiary, Cogeco Radio-Television Inc., has entered into barter transactions for an amount of $1,810,000 ($2,444,000 in 2002). Related revenue and operating costs of an equivalent amount were recorded.

20 Governmental assistance

The Company's subsidiary, Cogeco Radio-Television Inc., received an amount of $959,000 ($428,000 in 2002) of tax credits related to television productions. These credits were accounted for in deduction of programs' production costs.

21 Comparative figures

Certain comparative figures have been reclassified in order to conform to the presentation adopted in 2003.

Ten-Year Financial Highlights

	2003	2002	2001	2000
Operations				
Revenue	**$ 603,774**	$ 531,998	$ 478,814	$ 408,438
Operating Income	**203,097**	187,305	174,346	150,845
Financial expense	**62,776**	60,816	55,225	51,656
Income before income taxes [1]	**28,705**	51,481	54,450	32,254
Net income from recurring operations	**9,899**	11,613	16,634	8,369
Net income	**9,899**	40,417	69,357	8,526
Cash Flow	**137,447**	125,461	115,363	101,330
Free Cash Flow	**13,210**	(30,610)	(53,918)	(95,546)
Investments				
Acquisition of fixed assets	**$ 107,119**	$ 127,040	$ 167,776	$ 178,444
Business acquisitions	**—**	71,172	226,148	155,358
Financial condition				
Fixed assets	**$ 792,453**	$ 782,981	$ 730,378	$ 626,145
Net assets employed [2]	**1,836,532**	1,838,257	1,730,714	1,350,432
Total assets	**2,001,854**	1,988,077	1,838,235	1,462,743
Indebtedness	**826,470**	849,672	817,441	768,946
Shareholders' equity	**350,016**	343,033	305,822	243,451
Other statistics				
Number of shares outstanding at year end	**16,315,677**	16,256,153	16,235,013	16,177,424
Weighted average number of outstanding shares	**16,254,656**	16,239,512	16,203,825	16,119,838
Per share data (basic)				
Operating Income	**$ 12.49**	$ 11.53	$ 10.76	$ 9.36
Net income from recurring operations	**0.61**	0.72	1.03	0.52
Net income	**0.61**	2.49	4.28	0.53
Cash Flow	**8.46**	7.73	7.12	6.29
Shareholders' equity	**21.45**	21.10	18.84	15.05
Return ratios				
Operating Income margin [3]	**33.6%**	35.2%	36.4%	36.9%
Return on average net assets employed [4]	**11.1**	10.5	11.3	12.5
Return on average shareholders' equity [5]	**2.9**	12.5	25.3	3.5
Financial ratios				
Indebtedness / Operating Income	**4.1**	4.5	4.7 [6]	5.1 [7]
Interest coverage [11]	**3.2**	3.1	3.2	2.9
Indebtedness / Shareholders' equity	**2.4**	2.5	2.7	3.2

(1) Income before income taxes, non-controlling interest and share in the results of an affiliated company.
(2) Total assets less cash and cash equivalents, accounts payable and accrued liabilities and deferred and prepaid income.
(3) Operating Income / Revenue.
(4) Operating Income / Average net assets employed.
(5) Net income applicable to multiple voting shares and subordinate voting shares / Average shareholders' equity
(6) For the fiscal year ended August 31, 2001, the ratio includes financial results for periods less than twelve months of the acquisitions of Cablevue (Quinte) Limited and related companies, of Harrowby Communications and related companies, of Muskoka Cable Systems Limited and related companies, of Huntsville Cable Services Limited, of Médiacâble inc. and of Décibel inc.
(7) For the fiscal year ended August 31, 2000, the ratio includes financial results of the acquisition of Cableworks Communications Inc. for an eleven-month period only.

(in thousands of dollars, except other statistics, per share data and ratios)

1999	1998	1997	1996	1995	1994
$ 358,875	$ 316,132	$ 274,516	$ 214,949	$ 206,897	$ 193,622
148,009	134,429	110,278	74,240	64,820	60,616
47,312	47,652	35,703	23,171	22,755	20,992
94,592	63,173	41,692	15,495	12,872	20,761
13,373	12,655	12,452	10,056	9,819	10,611
53,251	20,208	18,430	8	5,210	10,712
103,136	89,162	70,620	42,466	41,598	36,068
(49,480)	(6,351)	(8,355)	5,545	(5,312)	3,981
$ 138,542	$ 83,425	$ 61,546	$ 36,287	$ 42,354	$ 29,609
19,554	66,061	368,343	14,376	—	—
$ 476,992	$ 387,513	$ 324,146	$ 170,026	$ 149,073	$ 122,135
1,058,858	998,097	864,023	462,676	465,430	438,667
1,155,577	1,072,647	962,513	511,772	507,434	476,912
491,877	635,535	554,778	227,853	228,785	208,557
237,808	187,154	170,323	170,809	173,413	170,145
16,068,050	15,907,203	15,863,997	17,718,996	17,788,495	17,767,036
15,998,470	15,900,932	16,890,465	17,794,707	17,784,111	16,889,710
$ 9.25	$ 8.45	$ 6.53	$ 4.17	$ 3.64	$ 3.59
0.84	0.80	0.74	0.57	0.55	0.60
3.33	1.27	1.09	—	0.29	0.61
6.45	5.61	4.18	2.39	2.34	2.14
14.80	11.77	10.74	9.64	9.75	9.58
41.2%	42.5%	40.2%	34.5%	31.3%	31.3%
14.4	14.4	16.6	16.0	14.3	13.9
25.1	11.3	10.8	—	3.0	6.8
3.3 [8]	4.7 [9]	5.0 [10]	3.1	3.5	3.4
3.1	2.8	3.1	3.2	2.8	2.9
2.1	3.4	3.3	1.3	1.3	1.2

(8) For the fiscal year ended August 31, 1999, the ratio includes financial results of Weyburn and Estevan cable systems sold on December 17, 1998, for approximately a three-month period only, and financial results of the Chiliwack cable system sold on May 31, 1999 for a nine-month period only.

(9) For the fiscal year ended August 31, 1998, the ratio includes financial results of the acquisition of Câblodistribution Le Rocher inc., for a nine-month period only and financial results of cable system exchange with Shaw Communications Inc for a two-month period only.

(10) For the fiscal year ended August 31, 1997, the ratio includes financial results of the cable systems acquired from Rogers Cablesystems Limited and certain of its related companies for a nine-month and six-day period only

(11) Operating income / Financial expense

(in thousands of dollars, except share information)

Investor Information

AS AT AUGUST 31,	2003	2002	2001	2000	1999
Consolidated Capitalization					
Indebtedness	**$ 826,470**	$ 849,672	$ 817,441	$ 768,946	$ 491,877
Shareholders' equity	**350,016**	343,033	305,822	243,451	237,808
Total	**$ 1,176,486**	$ 1,192,705	$ 1,123,263	$ 1,012,397	$ 729,685

AS AT AUGUST 31, 2003

Credit Rating, Cogeco Cable Inc.	DBRS	S&P
Senior Secured Debentures, Series 1	BB (High)	BBB–
Second Secured Debentures, Series A	BB	BB+

Cogeco Cable Inc.'s credit ratings have a stable trend.

AS AT AUGUST 31, 2003

Share Information	
Number of multiple voting shares (20 votes per share) outstanding	1,849,900
Number of subordinate voting shares (1 vote per share) outstanding	14,465,777
Stock exchange listing	The Toronto Stock Exchange
Trading symbol	CGO

Registrar / Transfer Agent

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1100 University Street, 9th Floor
Montréal (Québec) H3B 2G7
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Tel.: 1 800 341-1419
Fax: (514) 871-7442

Dividend Policy

The Company declared an annual dividend of $0.21 per share, or $0.0525 quarterly, during fiscal 2003 ($0.21 per share, or $0.0525 quarterly, in fiscal 2002) to the holders of subordinate voting shares and multiple voting shares.

YEARS ENDED AUGUST 31, (in dollars, except volume of subordinate voting shares)

	The Toronto Stock Exchange			
Trading Statistics	High	Low	Close	Volume (shares)
2003	**$ 18.35**	**$ 6.50**	**$ 15.75**	**5,361,820**
2002	24.75	10.40	11.00	6,315,122
2001	45.75	21.90	22.95	7,685,919
2000	48.00	19.50	37.95	12,285,120
1999	31.05	11.50	22.25	2,495,317
1998	18.10	9.25	13.65	2,696,676
1997	10.80	6.00	9.60	2,373,819
1996	8.50	5.50	6.70	3,382,585
1995	9.38	5.25	6.63	3,316,267
1994	13.50	9.38	9.38	2,286,202

Cable Statistics

	2003	2002	2001	2000	1999
Number of Customers					
Homes passed	**1,397,486**	1,375,494	1,358,880	1,197,808	1,103,361
Homes connected [1]	**830,077**	843,598	881,731	806,431	765,806
Revenue Generating Units	**1,188,369**	1,124,358	1,082,953	948,047	804,941
Basic Service Customers	**820,657**	836,368	878,766	806,431	765,806
Percent Penetration	**58.7%**	60.8%	64.7%	67.3%	69.4%
Discretionary Service Customers	**639,820**	644,031	702,604	662,450	631,690
Penetration as Percentage of Basic [2]	**78.2%**	79.1%	81.3%	79.9%	85.2%
Pay-TV Service Customers	**113,614**	116,484	108,626	88,320	74,196
Penetration as Percentage of Basic	**13.8%**	13.9%	12.4%	11.0%	9.7%
High-Speed Internet Service Customers	**205,179**	158,192	107,938	70,716	39,135
Penetration as Percentage of Basic [2]	**28.5%**	22.1%	16.1%	12.2%	—
Digital Terminals	**183,087**	144,950	105,292	79,063	—
Penetration as Percentage of Basic [2]	**22.8%**	18.4%	13.3%	11.1%	—
Digital Customers	**162,533**	129,798	97,216	72,756	—
Bundled Service Customers [3]	**288,080**	241,686	187,926	51,203	—

(1) Internet service customers who do not subscribe to other cable services and basic service customers.
(2) Calculated on the basis of the systems where the service is offered.
(3) Bundles including basic service, discretionary tiers, multiple outlets with the option to include pay television, the advantages of digital service and high-speed Internet service.

		Basic Service		**Discretionary Services**		**Basic Service**
	Homes Passed	Customers	% of Penetration [1]	Customers	% of Penetration [2]	Distribution by province as a %
Breakdown by province						
Ontario	954,912	584,864	61.2	466,090	79.7	71.3
Québec	442,574	235,793	53.3	173,730	74.6	28.7
Total in Canada	1,397,486	820,657	58.7	639,820	78.2	100.0

(1) As percentage of homes passed.
(2) As percentage of basic service customers where the service is offered.

Board of Directors and Management

Board of Directors

■ ▲ ✦ Maurice Myrand, F.C.A.
Chairman of the Board
Director

■ Henri Audet, Eng., C.M., B.A., B.A.Sc., M.Sc., D.Sc.
Chairman Emeritus
Director

■ Louis Audet, Eng., M.B.A.
President and Chief Executive Officer
Director

● Robert Bonneau, Eng.
Corporate Director
Director

● ✦ Jacqueline L. Boutet, C.M.
President,
Jacqueline L. Boutet Inc.
Director

● André Brousseau
Corporate Director
Director

▲ Daniel Damov
Corporate Director
Director

▲ Henri P. Labelle, B. Arch., M.B.A.
Architect and Certified Arbitrator
Director

✦ David McAusland, B.C.L., LL.B.
Senior Vice-President,
Mergers & Acquisitions
and Chief Legal Officer,
Alcan Inc.
Director

▲ ✦ Jan Peeters
Chairman of the Board,
President and Chief Executive Officer,
Olameter Inc.
Director

● Pierre Robitaille, F.C.A., M.B.A.
Corporate Director and
Business Advisor

■ Member of the Executive Committee
● Member of the Audit Committee
▲ Member of the Human Resources Committee
✦ Member of the Governance Committee

Management

Louis Audet
President and Chief
Executive Officer

Pierre Gagné
Vice-President,
Finance and Chief Financial Officer

Yves Mayrand
Vice-President,
Corporate Affairs

Christian Jolivet
Chief Legal Officer and Secretary

Isabelle Morin
Director, Internal Audit
and Financial Planning

Andrée Pinard
Treasurer

Corporate Information

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Annual Meeting
The Annual Shareholders Meeting will be held at 4 p.m. on Wednesday, December 10, 2003, at the Tour de la Bourse, 800 Square Victoria, Montréal (Québec).

Auditors
Samson Bélair / Deloitte & Touche
1 Place Ville Marie, Suite 3000
Montréal (Québec)
H3B 4T9

Legal Counsel
Fraser Milner Casgrain LLP
1 Place Ville Marie, Suite 3900
Montréal (Québec)
H3B 4M7

Quarter ends
November, February, May

Year end
August 31

Subsidiaries and Operating Units

Cogeco Cable Inc.

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J. François Audet
Director, Telecommunications

Denis Bélanger
Vice-President, Engineering and Development

Gaston Germain
Vice-President and General Manager, Cable Ontario

Jules Grenier
Vice-President and General Manager, Cable Québec

Ron A. Perrotta
Vice-President, Marketing and Sales

Louise St-Pierre
Vice-President and Chief Information Officer

Radio and Television

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612 St-Jacques
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Tel.: (514) 390-6035
Fax: (514) 390-6279

Michel J. Carter
President and Chief Executive Officer

Radio

105.7 RYTHME FM/ RYTHME FM Network
(CFGL-FM)
Laval/Montréal (Québec)

Jacques Boiteau
General Manager

CJMF-FM/91.9 RYTHME FM
Québec (Québec)

Geoffrey O. Brown
General Manager

Television

TQS Inc.

Michel J. Carter
President and Chief Executive Officer

Thérèse David
Vice-President, Communications

Luc Doyon
Vice-President, Programming and Information

Jean-Marc Fortier
Executive Vice-President, Corporate Services

Richard Gauthier
Vice-President, Human Resources

Monique Lacharité
Executive Vice-President, Finance and Administration

Guy Meunier
Vice-President, Sales

CKSH-TV/CFKS-TV
Sherbrooke (Québec)

Michel Cloutier
General Manager

CKTM-TV/CFKM-TV
Trois-Rivières (Québec)

Michel Cloutier
General Manager

CKTV-TV/CFRS-TV
Saguenay (Québec)

Guy Simard
General Manager

CFAP
Québec (Québec)

Renauld Francoeur
General Manager

Inquiries

The Annual Information Form and Quarterly Reports are available in the Investor Relations section of the cogeco.com website or upon request by calling (514) 874-2600.

Des versions françaises du rapport annuel, de la notice annuelle et des rapports trimestriels sont disponibles à la section Relations avec les Investisseurs du site Internet cogeco.com ou sur demande au (514) 874-2600.

Investors and Analysts
For financial information about the Company, please contact the Department of Finance.

Shareholders
For any inquiries other than a change of address, financial information or a change of registration of shares, please contact the Legal Affairs Department.

Duplicate Communications
Some shareholders may receive more than one copy of publications such as Quarterly Reports and the Annual Report. Every effort is made to avoid such duplication. Shareholders who receive duplicate mailings should advise National Bank Trust.

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